



Dear Shareholder:

You are invited to attend the Annual and Special Meeting of the shareholders of BCE Inc. which will be held at the Metro Toronto Convention Centre, 222 Bremner Blvd. (South Building), Toronto, Ontario on Wednesday, April 26, 2000, at 10:30 a.m.

The items of business to be acted upon are set forth in the notice of meeting, management proxy circular, and the Corporation's and Nortel Networks Corporation's notice of application and joint arrangement circular. This year, in addition to the usual business, you will be asked to vote on the proposed plan of arrangement announced by the Corporation on January 26, 2000, being recommended by the Board of Directors, under the *Canada Business Corporations Act*, pursuant to which the Corporation is proposing to distribute to its common shareholders an approximate 36% interest in Nortel Networks Corporation. The proposed plan of arrangement is briefly described in the accompanying management proxy circular and is described in more detail in the accompanying notice of application and joint arrangement circular. In addition, you will be asked to vote on a resolution ratifying the Corporation's shareholder rights plan previously adopted by the Board of Directors and discussed in the accompanying management proxy circular. Furthermore, you will be asked to vote on certain shareholder proposals set out in the accompanying management proxy circular.

Your participation in the affairs of the Corporation is most important, regardless of the number of shares you hold. If you are unable to attend in person, please complete, sign and return the enclosed proxy form in the envelope provided for this purpose. If you intend to be present at the meeting, you may nevertheless find it convenient to express your views in advance by completing and returning your proxy form. If your shares are not registered in your name but are held in the name of a nominee, you may wish to consult the information on page 3 of the accompanying management proxy circular with respect to how to vote your shares.

Following the custom of past annual meetings, we will review with you the business and affairs of the Corporation. You will also have an opportunity to meet your directors and the executives of the Corporation.

Sincerely yours,

A handwritten signature in black ink, appearing to read "L.R. Wilson", with a long horizontal line extending to the right.

L.R. WILSON

Chairman of the Board

March 13, 2000



notice of 2000 annual and special meeting

The Annual and Special Meeting of the shareholders of BCE Inc. will be held at the Metro Toronto Convention Centre, 222 Bremner Blvd. (South Building), Toronto, Ontario on Wednesday, April 26, 2000, at 10:30 a.m. (Toronto time) for the following purposes:

- to receive the consolidated financial statements for the year ended December 31, 1999 and the auditors' report on the financial statements;
- to elect directors for the ensuing year;
- to appoint auditors to hold office until the close of the next annual meeting;
- to consider and, if thought advisable, to approve, with or without variation, a special resolution (the full text of which is reproduced as Schedule "A" to the accompanying management proxy circular) to approve the plan of arrangement described in the accompanying management proxy circular and notice of application and joint arrangement circular;
- to consider and, if thought advisable, to approve, with or without variation, a resolution (the full text of which is reproduced as Schedule "B" to the accompanying management proxy circular) to approve, ratify and confirm the shareholder rights plan briefly described in the accompanying management proxy circular and described in more detail in Schedule "C" to the accompanying management proxy circular and which was adopted by the Board of Directors of the Corporation on February 23, 2000;
- to deal with certain shareholder proposals (the full text of which are reproduced as Schedule "D" to the accompanying management proxy circular); and
- to transact such other business as may properly be brought before the meeting.

Shareholders registered at the close of business on March 21, 2000 will be entitled to receive notice of the meeting.

By order of the Board of Directors,


A handwritten signature in black ink, appearing to read "M. Ryan", with a stylized flourish at the end.

MARC J. RYAN
Corporate Secretary

Montréal, March 13, 2000

NOTE:

Proxies to be used at the meeting must be received prior to 4:45 p.m. (Montréal time) on Monday, April 24, 2000, by our transfer agent, Montreal Trust Company, by mail at Box 580, Station B, Montréal, Québec, Canada H3B 3K3, or by delivery to 1800, avenue McGill College, 6th Floor, Montréal, Québec, Canada, or by other agents appointed by the Corporation for such purpose. Shareholders residing in the United States should mail their proxies to our transfer agent at Box 127, Rouses Point, N.Y. 12979-9930, U.S.A. and those residing outside Canada and the United States at Box 127, Rouses Point, N.Y. 12979-9929, U.S.A.



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QUESTIONS AND ANSWERS ON VOTING AND PROXIES

To ensure representation of your shares at the Annual and Special Meeting of BCE Inc. ("BCE" or the "Corporation") to be held in Toronto, Ontario on April 26, 2000 (the "Meeting"), please complete, sign and return your proxy form or, if you are not a registered shareholder, the request for voting instructions or the proxy form, as the case may be, that was sent to you, as soon as possible. It is important that your shares be represented at the Meeting and that your wishes be made known to the directors. This will be assured, whether or not you attend the Meeting, if you complete and sign the proxy form or request for voting instructions, as the case may be, that was sent to you and return it as soon as possible. The following questions and answers provide guidance on how to vote your shares. Should you have any questions, please contact our proxy solicitation agent, Georgeson Shareholder Communications Canada ("GSCC"), in the manner indicated in Q&A No. 20 of this management proxy circular (the "Circular"). **If you are not a registered shareholder, please refer to Q&A No. 19 below for a description of the procedure to be followed to vote your shares.**

1. Q: WHO IS SOLICITING MY PROXY?

A: This Circular is furnished in connection with the solicitation by the management of BCE of proxies to be used at the Meeting and at any adjournment or postponement thereof. Solicitation of proxies will be primarily by mail, supplemented by telephone or other contact, by employees or agents of the Corporation at a nominal cost, and all costs thereof will be borne by the Corporation. The Corporation has retained the services of GSCC for the solicitation of proxies in Canada and in the United States. The maximum aggregate costs of GSCC's services are estimated to be \$121,000.

2. Q: WHAT AM I VOTING ON?

A: The election of the directors to the Board of Directors of the Corporation and the appointment of the auditors of the Corporation until the next annual meeting, the proposed plan of arrangement ("Plan of Arrangement") pursuant to which BCE would distribute to its common shareholders an approximate 36% interest in Nortel Networks Corporation ("Nortel Networks"), the proposed ratification of the shareholder rights plan, and two shareholder proposals. Shares may be voted for or

withheld from voting on the election of directors and the appointment of auditors. On other matters, the shareholder may vote for or against the proposal. **As indicated elsewhere in this Circular, the Corporation's Board of Directors and management are recommending that shareholders vote FOR the Plan of Arrangement, FOR the ratification of the shareholder rights plan and FOR Shareholder Proposals No. 1 and No. 2.**

3. Q: WHAT SHAREHOLDER PROPOSALS WILL BE VOTED ON AT THE MEETING?

A: As set forth in Schedule "D" to this Circular, there are two shareholder proposals to be voted on at the Meeting. As explained in Schedule "D", the Board of Directors and management are recommending voting **FOR** Shareholder Proposal No. 1, relating to the disclosure of information to shareholders, and **FOR** Shareholder Proposal No. 2, relating to the disclosure of fees paid by the Corporation to its auditors.

4. Q: WHAT DOCUMENTS FORM PART OF THE PACKAGE SENT TO ME?

A: In addition to the usual annual corporate documents (i.e., BCE's 1999 Annual Report, this Circular and the proxy form) you will find included in your package BCE's and Nortel Networks' notice of application and joint arrangement circular (the "Arrangement Circular") and a copy of the audited consolidated financial statements and other financial information of Nortel Networks as at and for the year ended December 31, 1999. The Arrangement Circular describes in detail the Plan of Arrangement whereby BCE proposes to distribute to its common shareholders an approximate 36% interest in Nortel Networks and with respect to which, as indicated in Q&A No. 2 above, you are being asked to vote on.

5. Q: WHO IS ENTITLED TO VOTE?

A: Shareholders as of the close of business on March 21, 2000 or their duly appointed proxies will be entitled to attend the Meeting or to register a vote. If you have acquired common shares of the Corporation after March 21, 2000, please refer to Q&A No. 14 to determine whether and how you may vote such shares.

*Information as of February 29, 2000, except as otherwise indicated.

6. Q: HOW DO I VOTE?

A: There are two ways that you can vote your shares if you are a registered shareholder. You may vote in person at the Meeting or you may complete and sign the enclosed proxy form appointing the named persons or some other person you choose to represent you and vote your shares at the Meeting.

If you wish to vote in person at the Meeting, do not complete or return the proxy form. Your vote will be taken and counted at the Meeting. Completing, signing and returning your proxy form does not preclude you from attending the Meeting in person.

If you do not wish to attend the Meeting or do not wish to vote in person, your proxy will be voted for or against or withheld from voting in accordance with your wishes as specified thereon on any ballot that may be called at the Meeting. **A proxy must be in writing and must be executed by the shareholder or by the shareholder's attorney authorized in writing or, if the shareholder is a corporation, by an officer or attorney thereof duly authorized.**

If your shares are registered in the name of a nominee, please see Q&A No. 19 for voting instructions.

7. Q: HOW DO I ATTEND THE MEETING IN PERSON?

A: Shareholders should present their admission ticket (attached to the proxy form) at the Meeting in order to facilitate their admission. Shareholders who do not bring their admission ticket will nevertheless be admitted to the Meeting after addressing themselves to a representative of BCE's transfer agent, Montreal Trust Company. Persons who are not shareholders may be admitted subject to the discretion of the chairman of the Meeting and subject to any space constraints after addressing themselves to a representative of Montreal Trust Company. Non-registered shareholders wishing to attend the Meeting should refer to Q&A No. 19.

8. Q: WHAT IF I SIGN THE PROXY FORM ENCLOSED WITH THIS CIRCULAR?

A: Signing the enclosed proxy form gives authority to Mr. L.R. Wilson, Mr. J.C. Monty, Mr. R.J. Currie or Mrs. D.S. Kaufman, all of whom are directors of the Corporation, to vote your shares at the Meeting.

9. Q: CAN I APPOINT SOMEONE OTHER THAN THESE DIRECTORS TO VOTE MY SHARES?

A: Yes. Write the name of this person, who need not be a shareholder, in the blank space provided in the proxy form. (NOTE: IT IS IMPORTANT TO ENSURE THAT ANY OTHER PERSON YOU APPOINT IS ATTENDING THE MEETING AND IS AWARE

THAT HIS OR HER APPOINTMENT HAS BEEN MADE TO VOTE YOUR SHARES. PROXYHOLDERS SHOULD, AT THE MEETING, PRESENT THEMSELVES TO A REPRESENTATIVE OF MONTREAL TRUST COMPANY AT THE TABLE IDENTIFIED AS "ALTERNATE ATTORNEYS/EXTERNAL PROXYHOLDERS").

10. Q: WHAT DO I DO WITH MY COMPLETED PROXY FORM?

A: Return it to the Corporation's transfer agent, Montreal Trust Company, in the envelope provided so that it arrives **no later than 4:45 p.m. (Montréal time) on Monday, April 24, 2000.** All shares represented by properly executed proxy forms received by Montreal Trust Company prior to such time will be voted for or against or withheld from voting, in accordance with your instructions as specified in the proxy form, on any ballot that may be called at the Meeting.

11. Q: HOW WILL MY SHARES BE VOTED IF I GIVE MY PROXY?

A: The persons named in the proxy form must vote or withhold from voting your shares in accordance with your directions. **In the absence of such directions, however, your shares will be voted FOR the election of directors, the appointment of auditors, the approval of the proposed Plan of Arrangement, the ratification of the proposed shareholder rights plan and Shareholder Proposals No. 1 and No. 2, as set out in this Circular.**

12. Q: IF I CHANGE MY MIND, CAN I TAKE BACK MY PROXY ONCE I HAVE GIVEN IT?

A: Yes. A shareholder who has given a proxy may revoke it by depositing an instrument in writing (which includes another proxy form with a later date) executed by the shareholder or by the shareholder's attorney authorized in writing with the Vice-President — Investor Relations at 1000, rue de La Gauchetière Ouest, Suite 3700, Montréal, Québec, Canada H3B 4Y7, at any time up to and including the last business day preceding the day of the Meeting, or any adjournment or postponement thereof, or by depositing it with the chairman of the Meeting on the day of the Meeting, or any adjournment or postponement thereof. A shareholder may also revoke a proxy in any other manner permitted by law.

It should be noted that the participation in person by a shareholder in a vote by ballot at the Meeting will automatically revoke any proxy which has been previously given by the shareholder in respect of business covered by that vote.

13. Q: WHAT IF AMENDMENTS ARE MADE TO THESE MATTERS OR IF OTHER MATTERS ARE BROUGHT BEFORE THE MEETING?

- A:** The person named in the proxy form will have discretionary authority with respect to amendments or variations to matters identified in the notice of 2000 annual and special meeting and to other matters which may properly come before the Meeting. As of the date of this Circular, the management of the Corporation knows of no such amendment, variation or other matter expected to come before the Meeting. If any other matters properly come before the Meeting, the persons named in the proxy form will vote on them in accordance with their best judgment.

14. Q: WHAT IF OWNERSHIP OF SHARES IS TRANSFERRED AFTER MARCH 21, 2000?

- A:** The person who acquires shares after March 21, 2000 (the "transferee") must produce properly endorsed share certificates or otherwise establish that he or she owns the shares and must ask the Corporation's transfer agent, Montreal Trust Company, no later than the close of business on Monday, April 17, 2000 that his or her name be included in the list of shareholders before the Meeting in order to be entitled to vote these shares. If the transferee does not satisfy these requirements, the transferor will continue to be entitled to vote these shares.

15. Q: HOW WILL THE VOTES BE COUNTED?

- A:** The election of directors, the appointment of auditors, the ratification of the shareholder rights plan and the consideration of shareholder proposals will each be determined by a majority of votes cast, whereas the special resolution concerning the Plan of Arrangement will be subject to the affirmative vote of not less than two-thirds of the votes cast. In the case of equal votes, the chairman of the Meeting is entitled to a second or casting vote.

16. Q: WHO COUNTS THE VOTES?

- A:** The Corporation's transfer agent, Montreal Trust Company, counts and tabulates the proxies. This is done independently of the Corporation to preserve the confidentiality of individual shareholder votes. Proxies are referred to the Corporation only in cases where a shareholder clearly intends to communicate with management (by making a written statement on the proxy form), in the event of a proxy contest or when it is necessary to do so to meet the requirements of applicable law.

17. Q: HOW CAN I CONTACT THE TRANSFER AGENT?

- A:** You can contact the transfer agent by mail at:

Montreal Trust Company
1800 McGill College Avenue
6th Floor
Montréal, Québec H3A 3K9

or by telephone:
within Canada and the United States at 1 (800) 561-0934,

or in the Montréal area or from any other country at (514) 982-7555;

or by fax at (514) 982-7635.

18. Q: MAY THE CORPORATION APPOINT OTHER AGENTS?

- A:** Yes. The Corporation may appoint agents in cities other than Montréal for the purpose of facilitating the delivery of proxies; if such agents are appointed, Montreal Trust Company will supply their names and addresses on request (in such a case, requests should be addressed to Montreal Trust Company in the manner described in Q&A No. 17.)

19. Q: IF MY SHARES ARE NOT REGISTERED IN MY NAME BUT ARE HELD IN THE NAME OF A NOMINEE (A BANK, TRUST COMPANY, SECURITIES BROKER, TRUSTEE OR OTHER), HOW DO I VOTE MY SHARES?

- A:** IF YOU ARE A NON-REGISTERED SHAREHOLDER, THERE ARE, AS DISCUSSED BELOW, TWO WAYS THAT YOU CAN VOTE YOUR SHARES HELD BY YOUR NOMINEE. APPLICABLE SECURITIES LAWS REQUIRE YOUR NOMINEE TO SEEK VOTING INSTRUCTIONS FROM YOU IN ADVANCE OF THE MEETING. ACCORDINGLY, YOU WILL RECEIVE OR HAVE ALREADY RECEIVED FROM YOUR NOMINEE EITHER A REQUEST FOR VOTING INSTRUCTIONS OR A PROXY FORM FOR THE NUMBER OF SHARES YOU HOLD. EVERY NOMINEE HAS ITS OWN MAILING PROCEDURES AND PROVIDES ITS OWN SIGNING AND RETURN INSTRUCTIONS, WHICH SHOULD BE CAREFULLY FOLLOWED BY NON-REGISTERED SHAREHOLDERS TO ENSURE THAT THEIR SHARES ARE VOTED AT THE MEETING.

ACCORDINGLY, FOR YOUR SHARES TO BE VOTED FOR YOU, PLEASE FOLLOW THE VOTING INSTRUCTIONS PROVIDED BY YOUR NOMINEE.

HOWEVER, IF YOU WISH TO VOTE IN PERSON AT THE MEETING, INSERT YOUR OWN NAME IN THE SPACE PROVIDED ON THE REQUEST FOR VOTING INSTRUCTIONS OR PROXY FORM TO APPOINT YOURSELF AS PROXYHOLDER AND FOLLOW THE SIGNING AND RETURN INSTRUCTIONS OF YOUR NOMINEE. NON-REGISTERED SHAREHOLDERS WHO APPOINT THEMSELVES AS PROXYHOLDERS SHOULD, AT THE MEETING, PRESENT THEMSELVES TO A REPRESENTATIVE OF MONTREAL TRUST COMPANY AT THE TABLE IDENTIFIED AS "ALTERNATE ATTORNEYS/EXTERNAL PROXYHOLDERS". DO NOT OTHERWISE COMPLETE THE FORM SENT TO YOU AS YOUR VOTE WILL BE TAKEN AND COUNTED AT THE MEETING.

20. Q: WHOM CAN I CALL IF I HAVE QUESTIONS ABOUT THE INFORMATION CONTAINED IN THIS CIRCULAR OR REQUIRE ASSISTANCE IN COMPLETING MY PROXY FORM?

- A:** For any questions regarding this Circular or assistance in completing your proxy form, please call Georgeson Shareholder Communications Canada at 1(800)890-1037, for service in English, and at 1(888)890-2933, for service in French.

NUMBER OF SHARES ENTITLED TO VOTE

As at February 29, 2000, 644,115,529 common shares of the Corporation are entitled to be voted at the Meeting.

RESTRICTIONS UNDER THE TELECOMMUNICATIONS ACT

Since 1994, Canadian ownership and control regulations (the "Regulations") are prescribed under the Telecommunications Act. To maintain the eligibility of Bell Canada and certain of its subsidiaries to act as Canadian common carriers under the Telecommunications Act, the level of non-Canadian ownership of BCE's voting shares cannot exceed 33⅓ per cent and BCE may not be otherwise controlled by non-Canadians. The Regulations give BCE, as the holding corporation for Canadian common carriers such as Bell Canada, certain powers to monitor and control the level of non-Canadian ownership of its voting shares. Such powers include the right to refuse to register a transfer of voting shares to a non-Canadian, to force a non-Canadian to sell his or her voting shares and to suspend the voting rights attached to that person's shares, if that person's holding would jeopardize BCE's status as a "Canadian" under the Regulations. To the best of BCE's knowledge, the level of non-Canadian ownership of BCE's common shares was approximately 8 per cent as at February 29, 2000. BCE monitors and periodically reports on the level of non-Canadian ownership of its common shares.

BUSINESS TO BE TRANSACTED AT THE MEETING

(See notice of 2000 annual and special meeting)

1. Presentation of financial statements

The consolidated financial statements for the year ended December 31, 1999, and the report of the shareholders' auditors thereon will be placed before the Meeting. The consolidated financial statements are included in the BCE 1999 Annual Report which is being mailed to shareholders with the notice of 2000 annual and special meeting and this Circular.

2. Election of directors *(See item 1 on proxy form)*

Under BCE's corporate governance guidelines, a former Chief Executive Officer of BCE may, at the discretion of the Board, be invited to serve, on an annual basis, on the Board of Directors for a period not to exceed a total of three (3) successive one-year terms after retirement. In light of the proposed distribution by BCE of an approximate 36% interest in Nortel Networks and the desirability of not having common directors of BCE and Nortel Networks, Mr. L.R. Wilson, BCE's non-executive Chairman and a director of Nortel Networks, has chosen not to seek re-election as a director of BCE although he could have been invited to serve in such capacity for one additional year. He

has been nominated for re-election as a director of Nortel Networks. Ms. J. Guillevin Wood, upon reaching the customary age limit for service on the Board under BCE's corporate governance policies, resigned from the Board on January 26, 2000. On that date, Ms. J. Maxwell was appointed to the Board to fill the resulting vacancy. Mr. R.M. Barford has also reached the same customary retirement age limit and is therefore not seeking re-election. Mr. Barford is Chairman of the Management Resources and Compensation Committee and member of the Corporate Governance Committee. Ms. M. Charest resigned from the Board on March 6, 2000. Ms. Charest was a member of the Management Resources and Compensation Committee.

No new nominees are being proposed for election at the Meeting. Accordingly, eleven directors are to be elected to hold office until the next annual meeting of the shareholders.

The persons nominated in this Circular are, in the opinion of management, well qualified to direct the Corporation's activities for the ensuing year.

All nominees have formally established their eligibility and willingness to serve as directors.

It is the intention of the persons whose names are printed in the enclosed proxy form to vote such proxy for the election of the nominees listed herein unless specifically instructed on the proxy form to withhold such vote.

If, prior to the Meeting, any of the listed nominees should become unavailable to serve, the persons designated in the proxy form will have the right to use their discretion in voting for a properly qualified substitute.

3. Appointment of auditors *(See item 2 on proxy form)*

A firm of auditors is to be appointed by vote of the shareholders at the Meeting to serve as auditors of the Corporation until the close of the next annual meeting. The Board of Directors, on the advice of the Audit Committee, recommends that Deloitte & Touche be reappointed as the shareholders' auditors.

4. Arrangement transaction *(See item 3 on proxy form)*

On January 26, 2000, the Corporation announced its intention to effect an arrangement (the "Arrangement") to distribute, in effect, an approximate 37% interest (as of February 29, 2000, the interest to be distributed was, as a result of a series of acquisitions undertaken by Nortel Networks, approximately 36%) in the common shares of Nortel Networks to the Corporation's common shareholders, by way of a proposed Plan of Arrangement. Under the proposed Plan of Arrangement, holders of one common share of the Corporation would receive approximately 0.78 of a common share of a new publicly traded Canadian corporation which would own all of the common shares of and continue as Nortel Networks (the final ratio is subject to adjustment based on the number of BCE common shares outstanding at the time of completion of the transaction). As part of the proposed Plan of Arrangement, all Nortel Networks common shareholders would exchange their common shares of

Nortel Networks for common shares of the new Canadian corporation on a one-for-one basis. The Corporation is expected to retain an approximate 2% interest in the common shares of the new corporation resulting from the proposed Plan of Arrangement.

To effect the Plan of Arrangement, the Corporation has entered into an Amended and Restated Arrangement Agreement (the "Arrangement Agreement") with Nortel Networks which is set out in Annex F to the accompanying Arrangement Circular. The Arrangement Agreement and Arrangement were unanimously approved by the Board of Directors of the Corporation and of Nortel Networks at meetings held on January 26, 2000 and March 13, 2000. The Arrangement, Arrangement Agreement, Plan of Arrangement and related transactions are described in greater detail in the accompanying Arrangement Circular. The Arrangement Circular contains important information relating to the Arrangement and is incorporated herein. Shareholders should read the Arrangement Circular carefully and in its entirety.

The Arrangement is being considered by the common shareholders of the Corporation pursuant to an order of the Superior Court of Justice of Ontario dated March 15, 2000, (the "Interim Order"). A copy of the Interim Order is included as Annex E to the Arrangement Circular. In order for the Arrangement to be implemented as provided in the Interim Order, the Arrangement must be approved by a two-thirds majority of the votes cast by common shareholders of the Corporation in respect of the special resolution (the "Special Resolution") concerning the Arrangement. The text of the Special Resolution is included as Schedule "A" to this Circular. The Arrangement must also be approved by a two-thirds majority of the votes cast by common shareholders of Nortel Networks.

**THE BOARD OF DIRECTORS AND MANAGEMENT
OF THE CORPORATION UNANIMOUSLY
RECOMMEND THAT THE SHAREHOLDERS VOTE
FOR THE SPECIAL RESOLUTION.**

As described in the Arrangement Circular, any holder of BCE common shares is entitled to be paid the fair value of all, but not less than all, of such shares in accordance with the Interim Order, if the shareholder dissents to the Plan of Arrangement and such Plan of Arrangement becomes effective. Such shareholder will not be entitled to dissent rights with respect to the Plan of Arrangement if he or she votes any shares in favour of the Special Resolution.

Each shareholder who might desire to exercise dissent rights should carefully consider and comply with the provisions of the Interim Order and of the *Canada Business Corporations Act*, a summary of which is set out in the Arrangement Circular, and consult his or her legal advisor. For more details, refer to the Arrangement Circular.

5. Shareholder Rights Plan (See item 4 on proxy form)

On February 23, 2000, the Board of Directors adopted a shareholders' rights plan (as amended, the "Rights Plan"). The Rights Plan is currently effective, but is subject to confirmation by the shareholders of the Corporation at the Meeting. Shareholders will be asked to consider a resolution approving, ratifying and confirming the Rights Plan and all rights issued pursuant to the Rights Plan ("Rights"). The text of the resolution is attached as Schedule "B" to this Circular.

The Rights Plan has a term of approximately three years and will expire at the close of the annual shareholders' meeting next following the third anniversary of the Rights Plan, unless the Rights are earlier redeemed by the Corporation. Approval of the Rights Plan by common shareholders is required to comply with stock exchange requirements.

**THE BOARD OF DIRECTORS AND MANAGEMENT
OF THE CORPORATION UNANIMOUSLY
RECOMMEND THAT THE SHAREHOLDERS VOTE IN
FAVOUR OF THE RIGHTS PLAN.**

BACKGROUND AND PURPOSE OF THE RIGHTS PLAN

The Rights Plan is designed to encourage the fair treatment of shareholders in connection with any take-over bid for the Corporation. The Rights Plan addresses the Board's concern that existing Canadian securities legislation (which requires that a take-over bid remain open for only 21 days) does not provide sufficient time for shareholders to properly consider and respond to an offer and for the Board of Directors to determine if there are other alternatives available to maximize shareholder value or whether other bidders may be prepared to pay more for the Corporation's shares than the offeror.

Although there is a proposal to extend to 35 days the period for which a take-over bid must be open, the Board of Directors believes that this time period may not be sufficient in all circumstances. In addition, the Board of Directors is also concerned that, while securities legislation has substantially addressed many concerns of unequal treatment of shareholders, there remains the possibility that control or effective control of a company may be acquired pursuant to a private agreement in which a small number of shareholders dispose of shares at a premium to market price which is not shared with the other shareholders. Also, a person may slowly accumulate shares through stock exchange acquisitions which may result, over time, in an acquisition of control without payment of fair value for control or fair sharing of any control premium among all shareholders. The Rights Plan addresses these concerns by applying to acquisitions of 20% or more of the common shares of the Corporation.

Under the Rights Plan, a bidder may make a "Permitted Bid" (as defined below) for common shares of the Corporation but may not take up any shares before the close of business on the 60th day after the date of the bid and unless at least 50% of the

Corporation's common shares, not Beneficially Owned (as defined in Schedule "C" to this Circular) by the person making the bid and certain related parties, are deposited, in which case the bid must be extended for 10 business days. The Rights Plan is intended to encourage an offeror to proceed by way of Permitted Bid or to approach the Board of Directors with a view to negotiation by creating the potential for substantial dilution of the offeror's position. The Permitted Bid provisions of the Rights Plan are designed to ensure that, in any take-over bid, all shareholders are treated equally, receive the maximum available value for their investment and are given adequate time to properly assess the bid on a fully informed basis. Under the Rights Plan, a bid for less than all of the common shares may be a Permitted Bid. In the case of a partial bid for less than all shares of a class where the bidder wishes to obtain a control position but does not wish to acquire all the Voting Shares, a shareholder may feel compelled to tender to a bid which the shareholder considers to be inadequate out of a concern that failing to tender may result in the shareholder being left with illiquid or minority discounted shares in the Corporation. The Permitted Bid provisions allow a shareholder to separate the tender decision from the approval or disapproval of a particular take-over bid by requiring that a Permitted Bid remain open for acceptance for a further 10 business days following public announcement that more than 50% of the Voting Shares held by shareholders (other than the bidder and certain related parties) have been tendered to the bid.

In recent years, unsolicited bids were made for the shares of a number of Canadian public companies. Most of these companies had shareholder rights plans which were used by the target's board of directors to gain time to seek alternatives to the bid with the objective of enhancing shareholder value. In a number of these transactions, a change of control ultimately occurred at a price in excess of the original bid price demonstrating that the existence of a shareholder rights plan will not prevent unsolicited take-over bids for the common shares of the Corporation.

The Rights Plan is not being proposed in response to, or in anticipation of, any acquisition or take-over bid. It is not the intention of the Board of Directors in adopting the Rights Plan to secure the continuance of existing directors or management in office, or to avoid a bid for control of the Corporation. Through the Permitted Bid mechanism, described in more detail in Schedule "C" to this Circular, shareholders may tender to a bid which meets the Permitted Bid criteria without triggering the Rights Plan, regardless of the acceptability of the bid to the Board of Directors. Even in the context of a bid that does not meet the Permitted Bid criteria, the Board of Directors will continue to be bound by its fiduciary duties to consider any bid for the common shares in exercising its discretion whether to waive the application of the Rights Plan to the offer or to redeem the Rights. In discharging that responsibility, the directors must act honestly and in good faith with a view to the best interest of the Corporation. Securities regulators have concluded in their decisions relating to shareholder rights plans that a target company's board of directors will not be permitted to maintain a shareholder rights plan

indefinitely to prevent a successful bid, but only for such time as the board is actively seeking alternatives to a take-over bid and there is a real and substantial possibility that it can increase shareholder choice and maximize shareholder value.

The Rights Plan does not inhibit any shareholder from using the proxy mechanism set out in the *Canada Business Corporations Act* to promote a change in the management or direction of the Corporation, including the right of holders of not less than 5% of the issued voting shares to requisition the directors to call a shareholders' meeting to transact any proper business stated in the requisition.

The Rights Plan does not affect in any way the financial condition of the Corporation. The initial issuance of the Rights is not dilutive and is not expected to have any effect on the trading of the common shares. If the Rights Plan was triggered and the Rights separated from the common shares as described in the summary attached in Schedule "C" to this Circular, reported earnings per share and reported cash flow per share on a fully-diluted or nondiluted basis may be affected. In addition, holders of Rights not exercising their Rights after the triggering of the Rights Plan may suffer substantial dilution.

This issuance of Rights will not change the manner in which shareholders currently trade their common shares. Shareholders do not have to return their certificates in order to have the benefit of the Rights.

Schedule "C" to this Circular contains a summary of the principal terms of the Rights Plan.

REGULATORY APPROVALS

Any obligation of the Corporation or action contemplated by the Rights Plan shall be subject to the receipt of any requisite approval or consent from any applicable regulatory authority including, without limiting the generality of the foregoing, any necessary approvals of any applicable stock exchange.

CANADIAN FEDERAL INCOME TAX CONSEQUENCES

The Corporation will not include any amount in income for the purposes of the *Income Tax Act* (Canada) (the "Act") as a result of the issue of the Rights. Pursuant to the Act, a right to acquire additional shares of the Corporation granted to a holder of common shares does not constitute a taxable benefit to the recipient that must be included in income or that is subject to non-resident withholding tax if all holders of common shares are granted the right. A Right was issued in respect of each common share outstanding on February 23, 2000. Therefore, holders of common shares should not have an income inclusion or liability for non-resident withholding tax upon the issuance of the Rights. In any event, the Corporation considers that the Rights have a negligible monetary value because the Corporation is not aware of any acquisition or take-over bid which will give rise to a Flip-in Event (as defined in Schedule "C" hereto), and there is only a remote possibility that the Rights will be exercised.

Although a holder of a Right may have income or may be subject to non-resident withholding tax if the Rights become exercisable, are exercised or redeemed, the Corporation considers the likelihood of such an event occurring to be remote.

SHAREHOLDERS' APPROVAL

The text of the resolution approving, ratifying and confirming the Rights Plan and the Rights issued pursuant to the Rights Plan is attached as Schedule "B". In order for the Rights Plan to be confirmed, the resolution must be passed by a majority of the votes cast by the holders of common shares who vote in respect thereof.

The persons named as proxies in the enclosed proxy form intend to cast the votes represented by proxy at the Meeting in favour of the resolution approving, ratifying and confirming the Rights Plan and the Rights issued pursuant to the Rights Plan unless the holder of common shares who has given such proxy has directed that the votes be otherwise cast.

6. Shareholder Proposals *(See items 5 and 6 on proxy form)*

Set out in Schedule "D" to this Circular are two shareholder proposals that have been submitted for consideration at the Meeting. As explained in Schedule "D", the Board of Directors and management of the Corporation are recommending voting **FOR** Shareholder Proposals No. 1 and No. 2 relating to the disclosure of information to shareholders and to the disclosure of fees paid to the Corporation's auditors, respectively.

7. Other business

The chairman of the Meeting will report on recent events of significance to the Corporation and on other matters of interest to the shareholders and will invite questions and comments from the floor.

Nominees for election as Directors and their beneficial voting securities ownership

Abbreviations **BCI** = Bell Canada International Inc., **BCE Emergis** = BCE Emergis Inc.

	Director since		Holdings
RICHARD JAMES CURRIE, C.M., <i>Toronto, Ontario</i> President and a director, George Weston Limited (a food processing and distribution and resource operating company). Member, Management Resources and Compensation Committee. Also President and a director of Loblaw Companies Limited and a director of Nortel Networks Corporation and Imperial Oil Limited.	May 1995	BCE common BCI common BCE share units ⁽¹⁾	5,109 5,000 2,175
DONNA SOBLE KAUFMAN, <i>Toronto, Ontario</i> Lawyer and Corporate Director Partner with Stikeman, Elliott, Barristers & Solicitors, until July 1997. Member, Audit Committee. Also a Director of BCI and TransAlta Corporation.	June 1998	BCE common BCE share units ⁽¹⁾ BCI common BCI share units ⁽²⁾	2,000 583 1,000 1,384
THOMAS EDWARD KIERANS, <i>Toronto, Ontario</i> Chairman and Chief Executive Officer, Canadian Institute for Advanced Research (CIAR) (the CIAR is Canada's "research university without walls", it conducts basic research programs in the social and natural sciences). Member, Audit Committee. Also Chairman of the Board of Moore Corporation Limited and Toronto Centre and a director of CGI Group Inc., Fishery Products International Limited, Inmet Mining Corporation, IPSCO Inc., Manufacturers Life Insurance Company and Petro-Canada.	April 1999	BCE common BCE share units ⁽¹⁾	1,954 194
BRIAN MICHAEL LEVITT, <i>Montréal, Québec</i> Corporate Director Member, Management Resources and Compensation Committee. Also a director of Bell Canada, Domtar Inc. and Moore Corporation Limited.	May 1998	BCE common BCE share units ⁽¹⁾	2,000 1,507

(1) See the **Report on executive compensation** under the heading **Share Units** on page 13 and **Compensation of directors** on page 18 for a description of the share unit plans in effect for BCE officers and for BCE, Bell Canada and BCE Media Inc. directors, respectively.

(2) See the description of the BCI Share Unit Plan for non-officer directors of BCI in Note (2) to the table on page 19.

Nominees for election as Directors and their beneficial voting securities ownership *(continued)*

Abbreviations **BCI** = Bell Canada International Inc., **BCE Emergis** = BCE Emergis Inc.

	Director since		Holdings
JUDITH MAXWELL, <i>Ottawa, Ontario</i> President Canadian Policy Research Networks Inc. ("CPRN") (CPRN is a non-profit organization whose mission is to create knowledge and lead public debate on social and economic issues important to Canadians. The research focuses on work, family, health and social policy). She has held this position since December 1994. Member, Audit Committee. Also a director of Clarica Life Insurance Company.	January 2000	—	
JOHN HECTOR McARTHUR, <i>Wayland, Massachusetts</i> Dean Emeritus, Harvard University Graduate School of Business Administration Member, Audit Committee and Management Resources and Compensation Committee. Also a director of AES Corporation, Cabot Corporation, Glaxo-Wellcome plc, KOC Holdings, A.S., Rohm and Haas Company and Springs Industries, Inc.	May 1995	BCE common BCE share units ⁽¹⁾	744 2,283
JEAN CLAUDE MONTY, C.M., <i>Montréal, Québec</i> President and Chief Executive Officer of the Corporation Also Chairman of the Board and Chief Executive Officer of Bell Canada, Chairman of the Board of Teleglobe Inc. and a director of BCE Emergis, Bell Mobility Inc., BCI, CGI Group Inc., Nortel Networks Corporation and Bombardier Inc.	May 1991 to September 1992 and reappointed October 1997	BCE common BCE share units ⁽¹⁾ BCI common BCE Emergis Common	65,193 24,144 5,000 5,000
JAMES EDWARD NEWALL, O.C., <i>Calgary, Alberta</i> Chairman of the Board, NOVA Chemicals Corporation (Producer of petrochemicals and plastics). Chairman, Audit Committee and member, Corporate Governance Committee. Also Chairman of the Board of NOVA Corporation Ltd. and a director of Bell Canada, Alcan Aluminium Limited, Canadian Pacific Limited, Maple Leaf Foods Inc., McCain Capital Corporation, Royal Bank of Canada and Rio Algom Inc.	May 1989	BCE common BCE share units ⁽¹⁾ BCI common BCE Emergis Common	6,379 3,544 10,000 2,500

(1) See the **Report on executive compensation** under the heading **Share Units** on page 13 and **Compensation of directors** on page 18 for a description of the share unit plans in effect for BCE officers and for BCE, Bell Canada and BCE Media Inc. directors, respectively.

Nominees for election as Directors and their beneficial voting securities ownership *(continued)*

Abbreviations **BCI** = Bell Canada International Inc., **BCE Emergis** = BCE Emergis Inc.

	Director since		Holdings
GUY SAINT-PIERRE, O.C., <i>Montréal, Québec</i> Chairman of the Board, SNC-Lavalin Group Inc. (an engineering-construction company). Member, Corporate Governance Committee. Also a director of Bell Canada, Alcan Aluminium Limited, General Motors of Canada Limited and Royal Bank of Canada.	May 1995	BCE common BCE share units ⁽¹⁾ BCI common	2,899 2,346 1,000
PAUL MATHIAS TELLIER, P.C., C.C., Q.C., <i>Montréal, Québec</i> President and Chief Executive Officer and a director, Canadian National Railway Company ("CN") (CN operates Canada's largest freight railway system). Member, Management Resources and Compensation Committee. Also a director of Bell Canada, Alcan Aluminium Limited, Bombardier Inc., Grand Trunk Corporation and McCain Foods Limited.	April 1999	BCE common BCE share units ⁽¹⁾	1,700 1,665
VICTOR LEYLAND YOUNG, O.C., <i>St. John's, Newfoundland</i> Chairman and Chief Executive Officer, Fishery Products International Limited (a Newfoundland-based international seafood harvesting, processing and marketing company). Member, Audit Committee. Also a director of Royal Bank of Canada.	May 1995	BCE common BCE share units ⁽¹⁾ BCI common	1,782 1,196 500

(1) See the **Report on executive compensation** under the heading **Share Units** on page 13 and **Compensation of directors** on page 18 for a description of the share unit plans in effect for BCE officers and for BCE, Bell Canada and BCE Media Inc. directors, respectively.

DIRECTORS' AND OFFICERS' REMUNERATION

Report on executive compensation

COMPENSATION PHILOSOPHY

The objectives of BCE's executive compensation policy are to assist in attracting and retaining executives, and to motivate them to achieve individual and group performance objectives consistent with creating shareholder value and advancing BCE's corporate success.

The compensation philosophy of BCE is to offer total compensation based on a comparator group of major Canadian and U.S. corporations. A substantial portion of the cash compensation is contingent upon corporate performance. In addition, there are long-term incentive programs designed to motivate the attainment of longer-term objectives, to align executive and shareholder interests and to ensure opportunities for capital accumulation as share prices increase.

Underlying BCE's compensation programs is an emphasis on share ownership, and officers of BCE are required to attain specified share ownership levels over a five-year period. Such levels are expressed as a percentage of annual base salary and range from 50 per cent for the lowest officer position to 300 per cent for the Chief Executive Officer.

The Management Resources and Compensation Committee (the "MRCC") undertakes periodic reviews of BCE's executive compensation policy to ensure its continued effectiveness in meeting the foregoing objectives.

COMPOSITION OF THE COMPENSATION COMMITTEE

The MRCC is responsible for the administration of BCE's executive compensation policy. The MRCC reports and makes recommendations on executive compensation matters to the Board of Directors.

As of March 7, 2000, the members of the MRCC are Messrs. R.M. Barford, R.J. Currie, B.M. Levitt, J.H. McArthur and P.M. Tellier. Mr. G.J. Maier was a member of the MRCC until April 28, 1999, on which date Ms. M. Charest and Mr. P.M. Tellier became members of the committee. Mr. B.M. Levitt joined the MRCC on July 29, 1999. Ms. Charest ceased to be a member of the MRCC on March 6, 2000. The Chairman is Mr. Barford. The MRCC met seven times during 1999. As a corporate practice, in 1999, the President and Chief Executive Officer of BCE also attended MRCC meetings except when matters pertaining to him were discussed. He did not vote at MRCC meetings.

TOTAL COMPENSATION

Total compensation, which comprises salary, annual short-term incentive awards, long-term incentives, benefits, and perquisites, is compared to a group of widely-held Canadian and U.S. corporations. This comparator group of companies is reviewed from time to time by the MRCC to ensure comparability in the current context. Total compensation levels are set to reflect both

the marketplace (to ensure competitiveness) and the responsibility of each position (to ensure internal equity). The total compensation policy is positioned between the 50th and the 75th percentile based on individual contribution and on meeting certain financial threshold targets, e.g. if positioned at the 75th percentile, 25 per cent of the companies pay more and 75 per cent of the companies pay less.

SALARY

The target salary is the mid-point of a salary range for an executive officer which is set at median levels in the comparator group to reflect similar positions in these companies using a direct comparison of responsibilities. Base salaries for executive officers are then determined by the MRCC within the above policy.

The salary of Mr. J.C. Monty of \$1,148,000 per annum as Chief Executive Officer for 1999 was set at the salary mid-point of \$1,148,000, consistent with the above philosophy.

ANNUAL SHORT-TERM INCENTIVE AWARDS

As part of the executive compensation policy, the MRCC established annual short-term incentive target awards ranging in 1999 from 35 per cent of the salary for the lowest eligible officer position to 60 per cent for the Chief Executive Officer.

Annual awards are based upon two factors:

- (1) corporate performance — this is assessed on the basis of various strategic business objectives and quantifiable financial targets both set at the beginning of the year as the Corporate Mandate by the Board of Directors (see *Strategic Planning (Corporate Mandate)* under **Mandate of the Board** on page 20). Strategic business objectives might include, for example, a specific corporate objective with respect to a particular subsidiary, the development of new businesses, the improvement of management development, or the strengthening of certain relationships. Quantifiable financial targets might include, for example, baseline earnings per share or contribution to earnings from core businesses. Although the corporate performance objectives have different relative weights, primary consideration is generally given to the quantifiable financial targets and, in particular, to BCE baseline earnings per share; and
- (2) individual contribution — this is evaluated on the basis of criteria which affect corporate performance, such as creativity and initiative in addressing business issues, succession planning and management development.

On the basis of the above factors, the MRCC determines the size of the annual short-term incentive awards. More specifically, the amount of the awards is computed based on the product of

the corporate performance factor and of the individual contribution factor. Actual awards may vary between zero and three times the target awards depending on achievement of the above two factors. They are paid at the beginning of a year with respect to performance in the previous year. Executive officers who participate in The BCE Inc. Share Unit Plan for Senior Executives and Other Key Employees (1997) (the “Executive Share Unit Plan”) and who receive share units cannot be paid short-term incentive awards for the same achievements (see **Share Units** on page 13).

The MRCC determined that Mr. Monty not only met, but in fact, exceeded the objectives of the Corporate Mandate and therefore recommended, and the Board of Directors approved, that Mr. Monty receive an annual short-term incentive of \$1,419,000 in respect of 1999. The determination of the award reflects the fact that, in 1999, BCE’s baseline earnings per share exceeded the Corporate Mandate’s target. In addition, 1999 marked significant progress for Nortel Networks, CGI Group Inc. and BCE Emergis. Furthermore, strategic realizations in 1999 included Bell Canada’s partnership with SBC/Ameritech, the privatization of BCE Mobile Communications Inc. (renamed Bell Mobility Inc.) (“Bell Mobility”), the launch of Bell Nexxia and the acquisition of a majority ownership position in Aliant Inc. With respect to the individual contribution factor, the determination of the award reflects Mr. Monty’s exceptional leadership which played a key role in the realization of the above-mentioned corporate achievements.

LONG-TERM COMPENSATION

Stock Options

Options to purchase BCE common shares may be granted under stock option plans of the Corporation to officers and other key employees of the Corporation and of certain of its subsidiaries (such stock option plans being herein collectively referred to as the “BCE Stock Option Program”). Stock option awards vary according to salary level and do not take outstanding options into account. Grant levels depend on the position of the incumbent and the total compensation relative to the market. They are based on the value required to attain the applicable percentile (i.e. between the 50th and 75th percentile in total market compensation, as previously discussed on page 11 under **TOTAL COMPENSATION**) and translated to options based on the market value of the Corporation’s common shares on the day prior to the effective date of the grant of the options (“Subscription Price”).

In addition, special grants of stock options may be approved to recognize singular achievements or, exceptionally, to retain and motivate executives in order to further align executive and shareholder interests (“Special Grants”).

The term of an option is normally ten years from the date of the grant except in the case of retirement, cessation of employment, death or an optionee’s employer ceasing to be the Corporation or a subsidiary of the Corporation, in which case the

term is reduced in accordance with the provisions of the BCE Stock Option Program or in accordance with decisions made from time to time by the MRCC under such program.

Except as indicated below, the right to exercise an option in its entirety accrues by 25 per cent annual increments over a period of four years from the date of grant unless otherwise determined by the MRCC at the time of grant. For example, in the case of the Special Grants of options, the right to exercise such options may accrue over a longer period of time. Furthermore, the BCE Stock Option Program was modified in 1999 to provide special vesting provisions in the event of a Change of Control (as defined below) of the Corporation. If there occurs a Change of Control of the Corporation and an optionee’s employment is terminated by the Corporation other than for cause or by the optionee for good reason (as set out in more detail in the BCE Stock Option Program, an “Unjustified Termination”) within 18 months following such Change of Control, the options then held by such optionee with respect to which the right to exercise has not yet accrued become exercisable in full for a period of 90 days thereafter, or such longer period as the MRCC may determine. “Change of Control” is defined, in essence, as (i) an offeror acquiring 50% or more of the outstanding securities of a class of voting or equity securities of the Corporation; (ii) certain changes to the composition of the majority of the Board of Directors of the Corporation, or (iii) the approval by the shareholders of the Corporation of plans or agreements providing for the disposition of all or substantially all the assets of the Corporation, the liquidation or dissolution of the Corporation or, in certain cases, the merger, consolidation or amalgamation of the Corporation. Options held by an optionee principally employed in a BCE business unit, such as Bell Canada or such other direct or indirect subsidiary of the Corporation identified by the MRCC (a “Designated Business Unit”), with respect to which the right to exercise has not yet accrued will, in the event that the Corporation ceases to hold at least a 50% interest but continues to hold at least a 20% interest in such Designated Business Unit and the employment of the optionee is terminated in a manner which constitutes an Unjustified Termination within 18 months following the decrease in the Corporation’s interest in the Designated Business Unit, become exercisable in the same manner as described above with respect to a Change of Control. Options held by an optionee principally employed in a Designated Business Unit with respect to which the right to exercise has not yet accrued will, in the event that the Corporation ceases to hold at least a 20% interest in such Designated Business Unit, become exercisable in full, effective upon the earlier of the date one year following the occurrence of such event or the date of an Unjustified Termination of the optionee, for a period of 90 days thereafter or such longer period as the MRCC may determine.

The exercise price payable for each common share covered by an option is generally the Subscription Price except where the MRCC makes a determination that the exercise price should be higher than the Subscription Price or where the MRCC

establishes, subject to any required approval of the stock exchanges on which the common shares of the Corporation are listed and posted for trading, that the exercise price should be less than the Subscription Price in the event that an option to acquire shares of a subsidiary of the Corporation or a company which is proposed to become a subsidiary of the Corporation is intended to be converted into an option to acquire common shares of the Corporation so that the economic position of the optionee is not affected by such conversion.

Simultaneously with the granting of an option, rights to a Special Compensation Payment ("SCP") may be granted. The SCP is a cash payment representing the excess of the market value of the shares on the date of exercise over their Subscription Price. The SCPs are provided for the purpose of paying taxes upon the exercise of an option. When SCPs are attached to options, the SCPs are triggered when the options are exercised.

Upon assuming the responsibility of Chief Executive Officer in 1998, Mr. Monty received a special grant of 400,000 options. This special grant represents the normal allocation of options for the years 1998 to 2000.

Share Units

To increase the alignment of executive and shareholder interests, BCE established the Executive Share Unit Plan pursuant to which share units ("Units"), each one being equivalent in value to one BCE common share, may be awarded to certain officers and other key employees of the Corporation and of certain BCE subsidiaries (the "Participants"). Unit awards may be annual awards or may be special awards to recognize singular achievements or to achieve certain corporate objectives.

On each BCE common share dividend payment date, additional Units are credited to the account of the Participant in an amount equivalent to dividends on outstanding BCE common shares. Following cessation of employment of the Participant, Units are paid, after remittance of applicable withholding taxes, in BCE common shares purchased on the open market.

There are no vesting conditions under the terms of the Executive Share Unit Plan. Furthermore, the number and terms of outstanding Units are not taken into account when determining whether and how many new Units will be granted.

The MRCC determines the size of the Unit awards as a percentage of salary upon the same factors and weighting as those described under ANNUAL SHORT-TERM INCENTIVE AWARDS. Target awards are also the same as those for short-term incentive awards. The number of Units awarded is determined on the basis of the market value of the Corporation's common shares on the day prior to the effective date of the grant of the Units. Persons who are paid annual short-term incentive awards cannot receive Units for the same achievements. The MRCC may, with respect to any particular year, require an eligible officer or key employee to participate in the Executive Share Unit Plan.

Mr. J.C. Monty received 16,227 Units based on a special share unit award of \$1,000,000 to ensure his total 1999 compensation reached the 75th percentile of the market, as provided for in

BCE's compensation policies. Share units in lieu of stock options were exceptionally awarded to Mr. Monty in order to reach the 75th percentile of the market because, as previously indicated, Mr. Monty already received in 1998 his normal allocation of options for the years 1998 to 2000.

IMPACT OF DISTRIBUTION BY BCE OF SHARES OF NORTel NETWORKS

As indicated elsewhere in this Circular, the Corporation is submitting for approval to its shareholders a Plan of Arrangement which, if approved and if it becomes effective in accordance with its terms, will result in the distribution by the Corporation to its holders of common shares of an approximate 36% interest in the common shares of Nortel Networks. If implemented, this transaction will result in a cancellation of the existing outstanding stock options issued by BCE and the reissue of options to acquire BCE common shares and to acquire common shares of the new corporation which would own all the common shares of Nortel Networks. For further information with respect to this matter, refer to the Arrangement Circular.

EXECUTIVE OFFICERS OF BCE AND BELL CANADA

In addition to being President and Chief Executive Officer of BCE, Mr. J.C. Monty is also Chairman and Chief Executive Officer of Bell Canada. His entire 1999 compensation was determined by BCE's Board of Directors in accordance with BCE's compensation policies and paid to him by BCE.

Mr. C.W.M. Scott was hired by Bell Canada as Vice-Chairman from Nortel Networks on February 1, 1999. Effective on that date, his entire compensation for the remainder of the year was determined by Bell Canada's Board of Directors in accordance with Bell Canada's compensation policies and paid by Bell Canada. Mr. Scott was appointed Chief Corporate Officer of BCE on January 27, 2000 and ceased, at such time, to be an employee of Bell Canada.

Both Mr. P.J.M. Nicholson, Chief Strategy Officer, and Mr. W.D. Anderson, Chief Financial Officer, were, at different times in the course of 1999, employees of BCE or Bell Canada. Accordingly, their salaries for different periods of time in 1999 were determined by the Board of Directors of, and paid by, Bell Canada or BCE in accordance with their respective compensation policies. Mr. P.J.M. Nicholson's 1999 award of Units under the Corporation's Executive Share Unit Plan and Messrs. W.D. Anderson's and J.J. Fridman's 1999 short-term incentive awards were determined by the Board of Directors of BCE in accordance with BCE's compensation policies.

Mr. J.J. Fridman ceased to be an executive officer of BCE and Bell Canada on June 1, 1999 when he resigned as Chief Legal Officer of both companies and proceeded on a leave of absence prior to retirement effective December 31, 2001. His 1999 salary was determined by the Board of Directors of, and paid by, Bell Canada in accordance with Bell Canada's compensation policies.

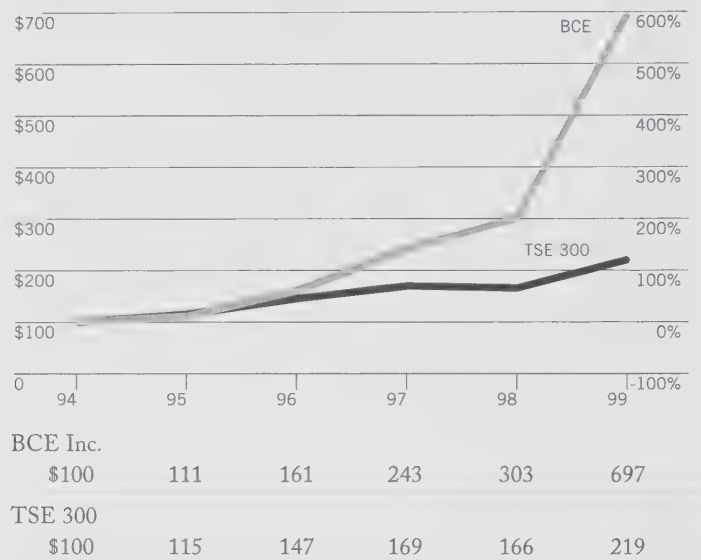
Bell Canada's compensation policies are substantially the same as those of BCE except that Bell Canada's short-term incentive

plan ties its payout to its specific corporate objectives set out at the beginning of the year.

Report presented by:
R.M. BARFORD, CHAIRMAN
R.J. CURRIE
B.M. LEVITT
J.H. McARTHUR
P.M. TELLIER

Shareholder return performance graph

The graph below compares the yearly percentage change in the cumulative total shareholder return on the Corporation's common shares against the cumulative total shareholder return of the TSE 300 Composite Index for the five-year period commencing December 31, 1994, and ending December 31, 1999*.



* Assumes that the initial value of the investment in the Corporation's common shares and in the TSE 300 Composite Index was \$100 on December 31, 1994, and that all subsequent dividends were reinvested. All prices for the Corporation's common shares were taken from The Toronto Stock Exchange's records.

Executive compensation table

The table on the following page sets forth the compensation for the financial years ended December 31, 1999, 1998 and 1997 for the individual who occupied the position of Chief Executive Officer and all of the other executive officers of the Corporation for 1999. The table also includes disclosure of the compensation paid to Mr. J.J. Fridman who ceased to be an executive officer of the Corporation during the year. Those listed in the table are referred to herein as the Named Executive Officers.

Summary compensation table

Name and principal position (1)	Year	Annual compensation			Long-term compensation*		
		Salary (\$) (2)	Bonus (\$) (3)	Other annual compensation (\$) (4)	Awards		All other compensation (\$) (7)
					Securities under Options**/ SARs granted (#) (5)	Restricted Shares or Restricted Share Units** (\$) (6)	
J.C. MONTY <i>President and Chief Executive Officer, BCE</i>	1999	1,148,000	1,419,000	91,864	—	16,227 Share Units based on \$1,000,000	32,126
	1998	889,960	920,000	—	475,400	—	32,664
	1997	1,040,563	1,451,766	24,840	40,000	4,028 Share Units based on \$183,700	2,579,700
C.W.M. SCOTT <i>Vice-Chairman, Bell Canada</i>	1999	430,833	0	—	70,000	1,281 Share Units based on \$211,500	15,707
	1998	—	—	—	—	—	—
	1997	—	—	—	—	—	—
P.J.M. NICHOLSON <i>Chief Strategy Officer, BCE</i>	1999	370,000	0	—	56,600	2,009 Share Units based on \$273,100	10,579
	1998	370,000	0	—	28,900	2,648 Share Units based on \$163,200	20,155
	1997	362,000	0	—	37,600	7,103 Share Units based on \$323,900	20,124
W.D. ANDERSON <i>Chief Financial Officer, BCE</i>	1999	337,500	288,400	—	71,100	—	13,477
	1998	290,000	153,600	—	17,500	572 Share Units based on \$35,000	11,680
	1997	218,750	217,200	—	21,400	—	10,055
J.J. FRIDMAN <i>Chief Legal Officer, BCE</i>	1999	300,000	120,000	630,011	45,300	—	12,002
	1998	295,667	0	199,719	10,700	1,908 Share Units based on \$117,600	11,686
	1997	285,000	0	110,885	10,800	4,763 Share Units based on \$217,200	13,021

* No payouts under a Long-Term Incentive Plan ("LTIP"), as defined under applicable legal requirements, were made. The relevant column was therefore omitted.

** BCE options and share units have been adjusted to reflect the BCE two-for-one stock split effective May 14, 1997.

- (1) Mr. Monty joined BCE as President and Chief Operating Officer from Nortel Networks on October 1, 1997 and was appointed President and Chief Executive Officer on May 6, 1998. He was President and Chief Executive Officer of Nortel Networks until February 27, 1997 when he was appointed Vice-Chairman and Chief Executive Officer. Compensation disclosed in the table for 1997 for Mr. Monty includes compensation received from BCE for the portion of the year during which he was an executive officer of BCE, as well as compensation received from Nortel Networks for the portion of the year during which he was an executive officer of Nortel Networks, which was then a subsidiary of BCE. Footnote (2) sets out the proportion of the salary paid in 1997 in respect of services provided to BCE and Nortel Networks. Details of the compensation received by Mr. Monty from Nortel Networks in the relevant portion of 1997 can be found in Nortel Networks' 1998 Proxy Circular and Proxy Statement. The amounts disclosed in the table in the case of Mr. Monty with respect to 1997 have been converted from U.S. dollars to Canadian dollars at the conversion rate indicated in the 1998 Nortel Networks Proxy Circular and Proxy Statement.
- Mr. Scott joined Bell Canada on February 1, 1999 as Vice-Chairman. From January 1 to January 31, 1999, and during all of 1998 and 1997, he was employed by Nortel Networks. As Mr. Scott was not an executive officer of BCE during the time that he was employed by Nortel Networks and that Nortel Networks was not a subsidiary of BCE in 1999, Mr. Scott's compensation from Nortel Networks during such period of time is not disclosed in the table. Mr. Scott was appointed Chief Corporate Officer of BCE on January 27, 2000 and concurrently ceased to be an employee of Bell Canada.
- Mr. Nicholson was appointed Executive Vice-President, Corporate Strategy on September 25, 1996 and Chief Strategy Officer of BCE on December 16, 1998. He was also Chief Strategy Officer of Bell Canada from December 16, 1998 to May 31, 1999.
- Mr. Anderson joined BCE on February 1, 1997 as Senior Vice-President, Finance from Bell Cablemedia plc, which was at that time an associated company of BCE. The 1997 compensation disclosed in the table only includes compensation paid by BCE from February 1, 1997. He was appointed Chief Financial Officer of BCE on March 25, 1998. He was also Chief Financial Officer of Bell Canada from March 25, 1998 to May 31, 1999.
- Mr. Fridman was Senior Vice-President, Law and Corporate Secretary until March 25, 1998 when he was appointed Chief Legal Officer and Corporate Secretary of BCE and Bell Canada; subsequent to the May 6, 1998 annual shareholders' meeting, he was succeeded as Corporate Secretary of BCE and Bell Canada. He resigned as Chief Legal Officer of BCE and Bell Canada effective June 1, 1999.
- (2) In the case of Mr. Monty, the 1997 salary is comprised of the amounts of \$168,750 and \$871,813 paid by BCE and Nortel Networks, respectively, for the portion of the year during which he was an executive officer of such corporations. Messrs. Nicholson and Anderson were, at different times in the course of 1999, employees of BCE or Bell Canada. Accordingly, their 1999 salaries were paid by BCE or Bell Canada, as the case may be, for the portion of the year during which they were employed by BCE or Bell Canada. Messrs. Scott's and Fridman's 1999 salaries were paid exclusively by Bell Canada.
- (3) Includes awards made under the BCE short-term incentive program and, in the case of Mr. Monty, the full amount indicated for 1997 was paid under Nortel Networks' Senior Management Incentive Award Plan. In the case of Mr. Anderson, the full amount indicated for the year 1998 was paid under the Bell Canada short-term incentive program.
- (4) In the case of Mr. Monty, "Other annual compensation" consists of perquisites and other benefits comprised primarily, in 1999, of an amount of \$71,567 (converted from U.S. dollars to Canadian dollars at the rate of 1.4858 being the average of the exchange rates in effect during 1999) representing BCE's aggregate incremental cost related to the personal use by Mr. Monty of BCE's corporate aircraft and, in 1997, amounts paid by Nortel Networks to reimburse Mr. Monty for income taxes payable by him in respect of certain perquisites and other taxable benefits (refer to Nortel Networks' 1998 Proxy Circular and Proxy Statement for more details).
- In the case of Mr. Fridman, "Other annual compensation" consists of Special Compensation Payments ("SCPs") under the BCE Stock Option Program made upon the exercise of stock options and, for 1999, an amount of \$103,448 paid in lieu of vacation.
- Except for Mr. Monty in 1999, perquisites and other personal benefits for the Named Executive Officers are not included since they did not exceed minimum threshold disclosure levels in 1999, 1998 and 1997.
- (5) Options granted under the BCE Stock Option Program which is described in the **Report on executive compensation**.
- Options granted in 1997 to Mr. Monty were pursuant to the terms of his offer of employment from BCE; pursuant thereto, in the event of his retirement, or in the event of an acquisition of control of BCE by another party or group, all outstanding BCE stock options held by Mr. Monty will immediately vest. SCP's were attached to all options granted in 1999, 1998 and 1997 to the Named Executive Officers under the BCE Stock Option Program. Freestanding Stock Appreciation Rights ("SARs") cannot be granted under the BCE Stock Option Program.
- (6) Share units ("Units") which are equivalent in value to BCE common shares were awarded. The number of Units awarded was determined on the basis of the average closing price of BCE common shares on The Toronto Stock Exchange and the Montreal Exchange on the day prior to the effective date of the award of Units except for the 1999 awards to Messrs. Scott and Nicholson which were determined on the basis of the closing price of BCE common shares on The Toronto Stock Exchange only on the day prior to the effective date of such awards. The dollar amount included in the summary compensation table represents the pre-tax value of the Units at the time of the award. On each BCE common share dividend payment date, additional Units are credited to the account of the Named Executive Officers in an amount equivalent to dividends on outstanding BCE common shares. For further information, see the **Report on executive compensation**. Aggregate holdings of Units and their value as at December 31, 1999 are as follows: Mr. Monty 20,628 Units with a value of \$2,705,412, Mr. Nicholson 18,281 Units with a value of \$2,397,683, Mr. Anderson 587 Units with a value of \$77,108 and Mr. Fridman 11,493 Units with a value of \$1,507,362.
- (7) All other compensation includes the following payments by BCE: company contributions under the BCE Employees' Savings Plan (1970) which is described below; payments for life insurance premiums and, for January 1999 and for the years 1998 and 1997, a health program allowance which is described below. For Mr. Monty, "All other compensation" also includes the amount of \$2,328,648 paid in 1997, equal to Mr. Monty's annual salary and target incentive bonus for a period of one year based on his October 1, 1997 salary at Nortel Networks, paid by Nortel Networks in accordance with Mr. Monty's retirement arrangements referred to in his employment agreement with Nortel Networks; \$200,000 of Mr. Monty's interest free special relocation loan forgiven in 1997 pursuant to Mr. Monty's employment agreement with Nortel Networks; imputed interest on Mr. Monty's special relocation loan in 1997; and contributions to Mr. Monty's account under the Northern Telecom Limited Investment Plan for Employees — Canada in 1997; refer to Nortel Networks' 1998 Proxy Circular and Proxy Statement for more details. For Messrs. Scott, Nicholson, Anderson and Fridman, "All other compensation" also includes the following payments by Bell Canada: company contributions under the BCE Employees' Savings Plan (1970) and payments for life insurance premiums.
- Under the BCE Employees' Savings Plan (1970), employees of BCE and Bell Canada, including executive officers, are eligible to make a basic contribution towards the purchase of BCE common shares of up to six per cent of their basic wages matched by a BCE or Bell Canada contribution of \$1 for every \$3 contributed by the employee.
- The health program allowance mentioned above is equal to 1.5 per cent of salary and was paid by BCE in January 1999, and in the years 1998 and 1997 to all management employees residing in the Province of Québec.

Stock options

The following table sets forth individual grants of stock options under the BCE Stock Option Program during the financial year

ended December 31, 1999 to each of the Named Executive Officers.

OPTION / SAR GRANTS DURING THE MOST RECENTLY COMPLETED FINANCIAL YEAR

Name	Securities under options / SARs granted (#) (1)(2)	% of Total options / SARs granted to employees in financial year (2)	Exercise or base price (\$ / Security) (3)	Market value of securities underlying options / SARs on the date of grant (\$ / Security) (2)	Expiration date
J.C. MONTY	—	—	—	—	—
C.W.M. SCOTT	40,000	1.1%	\$61.6250	\$61.6250	Feb. 21, 2009
	30,000 ⁽⁴⁾	0.8%	\$61.6250	\$61.6250	Feb. 21, 2009
P.J.M. NICHOLSON	21,600	0.6%	\$61.6250	\$61.6250	Feb. 21, 2009
	30,000 ⁽⁴⁾	0.8%	\$61.6250	\$61.6250	Feb. 21, 2009
	5,000 ⁽⁴⁾	0.1%	\$68.7750	\$68.7750	May 25, 2009
W.D. ANDERSON	21,100	0.6%	\$61.6250	\$61.6250	Feb. 21, 2009
	30,000 ⁽⁴⁾	0.8%	\$61.6250	\$61.6250	Feb. 21, 2009
	20,000 ⁽⁴⁾	0.5%	\$68.7750	\$68.7750	May 25, 2009
J.J. FRIDMAN	15,300	0.4%	\$61.6250	\$61.6250	Dec. 31, 2006
	30,000 ⁽⁴⁾	0.8%	\$61.6250	\$61.6250	Dec. 31, 2001

- (1) Each option granted under the BCE Stock Option Program covers one common share of the Corporation. A Special Compensation Payment was attached to each option granted to the Named Executive Officers under the BCE Stock Option Program. The BCE Stock Option Program is described in the **Report on executive compensation**.
- (2) As freestanding SARs have not been granted, the numbers relate solely to stock options.
- (3) The exercise price of the stock options outlined in this table is equal to the average closing price of the Corporation's common shares on The Toronto Stock Exchange and the Montreal Exchange on the day prior to the effective date of the grant of the options.
- (4) The right to exercise these Special Grants of options vests five years after the date of grant, except in the case of Mr. Fridman for whom the Special Grant of 30,000 options will not vest as a result of his resignation as an officer of the Corporation. Mr. Fridman proceeded on a leave of absence prior to retirement effective December 31, 2001.

The following table sets forth details of all exercises of stock options by each of the Named Executive Officers under the BCE Stock Option Program during the financial year ended

December 31, 1999, and the financial year-end value of unexercised options on an aggregated basis.

AGGREGATED OPTION / SAR EXERCISES DURING THE MOST RECENTLY COMPLETED FINANCIAL YEAR AND FINANCIAL YEAR-END OPTION / SAR VALUES

Name	Securities acquired on exercise (#)	Aggregate value realized (\$) (1)	Unexercised options / SARs at December 31, 1999 (#) (2)		Value of unexercised "in-the-money" options / SARs at December 31, 1999 (\$) (2)(3)	
			Exercisable	Unexercisable	Exercisable	Unexercisable
J.C. MONTY	—	—	138,850	376,550	\$10,375,617	\$27,570,852
C.W.M. SCOTT	—	—	—	70,000	—	\$ 4,866,750
P.J.M. NICHOLSON	—	—	41,993	99,065	\$ 4,176,416	\$ 7,801,030
W.D. ANDERSON	—	—	31,179	94,925	\$ 3,161,237	\$ 6,967,925
J.J. FRIDMAN	10,000	\$526,563	32,311	30,715 ⁽⁴⁾	\$ 3,374,278	\$ 2,489,129 ⁽⁴⁾

- (1) The aggregate value realized is calculated using the average of the closing prices for a board lot of common shares of the Corporation on The Toronto Stock Exchange and the Montreal Exchange on the date of exercise, less the exercise price. Excludes an equivalent value received as a Special Compensation Payment which is disclosed in the Summary compensation table under "Other annual compensation" and described in the **Report on executive compensation**.
- (2) As freestanding SARs have not been granted, the numbers relate solely to stock options.
- (3) The value of unexercised "in-the-money" options is calculated using the closing price for a board lot of common shares of the Corporation on The Toronto Stock Exchange on December 31, 1999, less the exercise price of "in-the-money" options. "In-the-money" options are options that can be exercised at a profit, i.e. the market value of the shares is higher than the price at which they may be bought from the Corporation.
- (4) The number of unexercisable options as at December 31, 1999 and value of unexercisable "in-the-money" options as at the same date excludes 30,000 options awarded to Mr. Fridman which will not vest as a result of his resignation as an officer of the Corporation.

Pension arrangements

Named Executive Officers participate in the non-contributory defined benefit pension plan of the Corporation (the "Pension Plan"). In addition, executive officers enter into supplementary executive retirement agreements ("SERPs"). The following table shows estimated annual pension benefits payable, under the Pension Plan and SERPs, upon retirement on December 31, 1999, at age 65, to officers in specified average earnings and service classifications. In no case may an officer receive under the basic Pension Plan and the SERP an annual aggregate pension benefit from BCE and its subsidiaries in excess of 70 per cent of average pensionable earnings.

PENSION PLAN TABLE

Pensionable earnings	20	Credited years of service 30	40
\$ 300,000	96,500	139,000	181,600
500,000	164,300	236,800	309,400
700,000	232,100	334,600	437,200
900,000	299,900	432,400	565,000
1,300,000	435,500	628,000	820,600
1,700,000	571,100	823,600	1,076,200
2,100,000	706,700	1,019,200	1,331,800
2,500,000	842,300	1,214,800	1,587,400
2,900,000	977,900	1,410,400	1,843,000

Benefits shown above are not subject to any deductions for government benefits or other offset amounts. The benefits are partially indexed annually to increases in the Consumer Price Index but in no case can indexation exceed 4 per cent.

The following describes the pensions payable to the Named Executive Officers under the Pension Plan, as supplemented by the SERPs:

- Named Executive Officers are credited with an additional 0.5 year of pensionable service for each year of service as an officer of the Corporation or of a subsidiary or associated company of the Corporation.
- Pensions are based on pensionable service and the average of the best consecutive thirty-six months of pensionable earnings. Pensionable earnings include salary and short-term incentive or annual share unit awards. The inclusion of such awards is subject to a maximum limit.
- Pensions are delivered on a "single-life" basis with a spousal survivor benefit entitlement of approximately 60 per cent.
- A retirement allowance equal to one year's base salary is payable at time of retirement. (This amount is not included in computing the officer's pensionable earnings).
- Officers generally become eligible to SERP benefits upon reaching: (i) age 55 or more and the sum of age and service equals or exceeds 85; (ii) age 60 or more and the sum of age and service equals or exceeds 80; or (iii) age 65 and 15 years of service. For purposes of this paragraph (e), service excludes the additional 0.5 year of pensionable service credited for each year of service of an officer.

- For purposes of computing their total retirement benefits, as of December 31, 1999, Mr. Monty had 35.3 years of credited service, Mr. Scott, 37.8 years, Mr. Anderson, 11.8 years, and Mr. Fridman, 37.9 years. This note sets forth additional information as of such date with respect to certain executive officers.

The pension arrangement of Mr. Nicholson is independent of actual credited service years. Mr. Nicholson, age 57, under the terms of his SERP, is entitled to a retirement income of 10 per cent of his average pensionable earnings at age 55 and 35 per cent at age 65, with gradual accrual of retirement benefits in the interval.

Mr. Monty, age 52, under the terms of his offer of employment by BCE is entitled to retire at any time with pensionable earnings equal to those determined by Nortel Networks based on his Nortel Networks salary and bonus history unless the pensionable earnings for his employment at BCE exceed his pensionable earnings at Nortel Networks. At this time, Mr. Monty's pensionable earnings are U.S. \$1,575,600 (Cdn. \$2,274,063 converted using the December 31, 1999 exchange rate of 1.4433). Until age 55, the pension benefits will be payable by BCE on the terms and conditions set out in Mr. Monty's employment contract with Nortel Networks as described in Nortel Networks' 1998 Proxy Circular and Proxy Statement. As a result of the application of such terms and conditions, Mr. Monty would be eligible to receive his pension at a rate not less than 1.3 per cent per year of service credited. After the age of 55, the pension benefits will be payable on the BCE terms and conditions set out above in this section. Upon retirement from BCE, no retirement allowance is payable to Mr. Monty.

Mr. Scott, age 53, under the terms of his offer of employment by BCE is entitled, in the event of termination of employment for any reason prior to March 1, 2003, to continue to receive his salary for a period of two years from the termination date. SERP pension benefit accrual will continue during the period of salary continuance with Mr. Scott being eligible to begin receiving SERP payments at the end of such salary continuance period. During the two-year salary continuance period, Mr. Scott will be entitled to the same benefits as an active officer and his stock options will continue to vest normally.

Compensation of directors

In 1999, each director who was not an employee of BCE (hereafter referred to as an "outside director") was entitled to be paid \$25,000 per annum for services as a director. Each outside director was also entitled to be paid \$5,000 per annum per committee for services as a member of any standing committee of the Board and \$4,000 per annum for services as chairman of any standing committee of the Board. In all cases, outside directors were entitled to an attendance fee of \$1,500 per meeting. Directors required to travel over 1,000 kilometres from their principal residence received twice the attendance fees otherwise

payable (a) for Board meetings and (b) for Committee meetings held on a day when the Board was not meeting. Mr. L.R. Wilson has been non-executive Chairman of the Board of BCE since his retirement as an employee on January 1, 1999. In lieu of the above fees, he received in February 1999 a grant of 10,000 stock options and matching Special Compensation Payments. Pursuant to a decision of the MRCC, upon Mr. L.R. Wilson's retirement from the Board of Directors, his right to exercise these 10,000 stock options will immediately vest and such options will remain exercisable for a five year period thereafter.

BCE has taken steps to align more closely the interests of its directors with those of its shareholders. Since May 1, 1997, the retainer portion of the directors' remuneration is required to be paid in the form of share units under The BCE Inc. Share Unit Plan for Non-Employee Directors (1997) (the "Directors' Share Unit Plan").

The annual retainer is payable quarterly. Accordingly, each quarter, a number of share units equal to the number of shares that could be purchased on the open market for a dollar amount equal to the quarterly retainer fee is credited to the account maintained by the Corporation for each outside director under the Directors' Share Unit Plan. Periodically, on each BCE common share dividend payment date, dividend-like credits in the form of share units are added to each director's account maintained under the Directors' Share Unit Plan, to reflect dividends on BCE's common shares. No shares are purchased on the open market under the Directors' Share Unit Plan until such time as a director ceases to be a member of the Board of

Directors. Following the cessation of an outside director's Board service, BCE causes to be purchased on the open market a number of BCE common shares equal to the outside director's credit balance under the Directors' Share Unit Plan after remittance of applicable withholding taxes and such shares are then delivered to the director. Subject to the consent of the Corporate Governance Committee, outside directors have, in addition, the option of causing the other fees to which they become entitled to be paid in share units under the Directors' Share Unit Plan.

During the last completed financial year, some directors of BCE also received compensation from certain subsidiaries of the Corporation for services in their capacity as directors of such subsidiaries. Mr. L.R. Wilson and Mrs. D.S. Kaufman were directors of Bell Canada for part of 1999 and of BCI for all of 1999. Ms. M. Charest was a director of Bell Canada, BCE Emergis and Bell Mobility for part of 1999. Ms. J. Guillevin Wood and Mr. B.M. Levitt were directors of Bell Canada and BCE Media Inc. ("BCE Media") for part of 1999. Mr. J.E. Newall was a director of Bell Canada for all of 1999 and of BCI for part of 1999. Messrs. R.M. Barford, R.J. Currie, T.E. Kierans, J.H. McArthur, G. Saint-Pierre and V.L. Young were directors of Bell Canada for part of 1999 whereas Mr. P.M. Tellier was a director of Bell Canada for all of 1999.

Directors' fees, including both retainers and attendance fees, are no longer paid to BCE directors who are officers of BCE and who serve on the boards of directors of BCE's subsidiary companies. Such fees are either paid directly to BCE or not paid at all.

Subsidiaries	Annual retainer			Attendance fees	
	Board of Directors	Committees	Committee Chairman	Board of Directors	Committees
Bell Canada ⁽¹⁾	\$16,000	\$4,000	\$4,000	\$1,000	\$1,000
BCI ⁽²⁾	US \$20,000	—	US \$1,000	US \$ 750	US \$ 500
Bell Mobility ⁽³⁾ (formerly BCE Mobile Communications Inc.)	\$12,000	\$3,000	\$3,000	\$ 750	\$ 750
BCE Emergis ⁽⁴⁾	\$20,000	\$1,000	\$1,000	\$ 500	\$ 500
BCE Media ⁽⁵⁾	\$15,000	\$2,000	—	\$1,000	\$ 500 ⁽⁶⁾

(1) Bell Canada has established a share unit plan for directors of Bell Canada who are not employees of Bell Canada, BCE or their subsidiaries pursuant to which participants are credited share units, that are equivalent in value to BCE common shares, in the same manner as under the Directors' Share Unit Plan of BCE.

(2) BCI has established a share unit plan for directors of BCI who are not employees of BCI, BCE or their subsidiaries. Under this plan, 50 per cent of the annual retainer fee of US \$20,000 is paid in share units ("BCI Units"), each of which is equivalent in value to one BCI common share. Following cessation of service on BCI's Board of Directors, BCI Units will be paid to the director in BCI common shares or in cash, at BCI's discretion, and after remittance of applicable withholding taxes. The other fees to which directors become entitled may, subject to the consent of BCI's Corporate Governance Committee, also be paid in the form of share units under the share unit plan.

(3) Effective January 1, 1999 BCE Mobile Communications Inc. ("BCE Mobile") established a share unit plan for directors of BCE Mobile who were not employees of BCE Mobile, BCE or their subsidiaries. Under this plan, 100 per cent of the annual retainer fee of \$12,000 was paid in share units ("BCE Mobile Units"), each of which was equivalent in value to one BCE Mobile common share. Following cessation of service on BCE Mobile's Board of Directors, BCE Mobile Units would be paid to the director in BCE Mobile common shares after deduction of applicable withholding taxes.

On October 22, 1999, BCE Mobile announced that its shareholders had approved the privatization of BCE Mobile. Prior to the privatization, Bell Canada indirectly held 65.3 per cent of the outstanding common shares of BCE Mobile. As a result of the privatization, the minority shareholders of BCE Mobile received a cash consideration of \$58.75 for each BCE Mobile common share held. The privatization makes BCE Mobile a wholly-owned, indirect subsidiary of Bell Canada. BCE Mobile has also been renamed Bell Mobility Inc.

In connection with the privatization, the Board of Directors of BCE Mobile approved the proposal that the BCE Mobile Units be paid in cash, subject to applicable withholding taxes, on the basis of \$58.75 per unit. All directors of Bell Mobility are salaried officers of Bell Mobility or BCE and, accordingly, do not receive any directors fees.

- (4) Effective October 1, 1999, BCE Emergis has established a share unit plan for directors of BCE Emergis who are not employees of BCE Emergis, BCE or their subsidiaries. Under the plan, 100 per cent of all fees, other than attendance fees, paid to directors are paid in share units ("BCE Emergis Units"), each of which is equivalent in value to one BCE Emergis common share. Following cessation of service on BCE Emergis' Board of Directors, BCE Emergis Units will be paid to the director in BCE Emergis common shares after deduction of applicable withholding taxes. Under this plan, attendance fees may also be paid in the form of share units at the election of the director. As of December 31, 1999, only one director of BCE Emergis, namely Ms. Charest, was a participant under this plan.
- (5) Effective November 26, 1999, BCE Media has established a share unit plan for directors of BCE Media who are not employees of BCE Media, BCE or their subsidiaries pursuant to which participants are credited share units, that are equivalent in value to BCE common shares, in the same manner as under the Directors' Share Unit Plan of BCE.
- (6) The chairman of a committee receives an attendance fee of \$1,000 per meeting.

STATEMENT OF CORPORATE GOVERNANCE PRACTICES

BCE seeks to attain high standards of corporate governance. The Board of Directors has carefully considered the corporate governance guidelines adopted by The Toronto Stock Exchange ("TSE") and believes that BCE is well aligned with all the recommendations contained in the guidelines. The following description summarizes BCE's corporate governance practices indicating where appropriate, by means of footnotes, the number of the corresponding TSE guideline.

Mandate of the Board

The Board of Directors has overall responsibility for the management and supervision of the management of the affairs of the Corporation. The Board has established an administrative procedure which prescribes the rules governing the approval of transactions carried out in the course of the Corporation's operations, the delegation of authority and the signing or execution of documents on behalf of the Corporation. For instance, the appointment of officers as well as the authorization of investments and expenditures above a certain dollar threshold are subject to review and approval by the Board⁽¹⁾.

In performing its responsibilities, the Board, a committee of the Board or an individual director may, as required, and subject to the approval of the Chairman of the Corporate Governance Committee (the "CGC"), engage an outside adviser at the expense of the Corporation⁽²⁾.

More specifically, the Board assumes the following principal responsibilities⁽³⁾:

- (i) *Strategic Planning (Corporate Mandate)*⁽⁴⁾: The Board of Directors approves BCE's corporate strategy. One meeting of the Board of Directors per year is set aside for a substantial strategic planning session. Key objectives of the strategy as well as quantifiable financial targets are incorporated into an annual management mandate (the "Corporate Mandate").
- (ii) *Succession Planning, including Appointing, Training and Monitoring Senior Management*⁽⁵⁾: As part of its mandate, the Board of Directors focuses on the integrity, quality, and continuity of management required to attain the Corporation's goals. The Management Resources and Compensation Committee (the "MRCC") reviews and

reports to the Board of Directors on succession planning, on senior management appointments and development and on the performance of management in relation to the Corporate Mandate at six-month intervals. Annually, the MRCC measures management's performance and compensation against the combined set of objectives comprised in the Corporate Mandate. A more detailed description of the role played by the MRCC may be found hereinafter under **Board committees** and particularly under **THE MANAGEMENT RESOURCES AND COMPENSATION COMMITTEE**.

- (iii) *Monitoring of Financial Performance, Financial Reporting and Risk Management*⁽⁶⁾: The Audit Committee reviews, reports and provides recommendations to the Board of Directors on financial performance, financial reporting and risk management. See **Board committees** and particularly **THE AUDIT COMMITTEE** for a description of the activities of the Audit Committee.
- (iv) *Communications Policy*⁽⁷⁾: The Board approves periodically a communications plan to address communications with shareholders, employees, financial analysts, governments and regulatory authorities, the media and the Canadian and international communities. Procedures for receiving feedback from shareholders have also been developed. For instance, in addition to the annual meeting, lines of communication (meetings, conferences and quarterly conference calls) have been established with the financial community to explain BCE's results and corporate strategy as well as to answer questions. BCE also has a toll free number for shareholder enquiries (1(800)561-0934) and for investor relations (1(800)339-6353). In addition, BCE presents detailed information on its business on a World Wide Web site on the Internet (www.bce.ca).

Composition of the Board

As of March 7, 2000, the Board is composed of thirteen directors, all of whom were throughout 1999 outside and unrelated directors, except Mr. J.C. Monty, the President and Chief Executive Officer of the Corporation. The unrelated directors represent a wide variety of business sectors. The corporations with which these directors are or have been closely affiliated have not had significant dealings with the BCE group of companies⁽⁸⁾.

(1) TSE guidelines No. 1 and 11. (2) TSE guideline No. 14. (3) TSE guideline No. 11. (4) TSE guideline No. 1(a). (5) TSE guideline No. 1(c).

(6) TSE guideline No. 1(b). (7) TSE guideline No. 1(d). (8) TSE guidelines No. 2 and 3.

The Board of Directors' objective, with respect to its composition, is to have a sufficient range of skills, expertise and experience to ensure that the Board can carry out its functions effectively and to have a reasonable geographical representation in relation to BCE's shareholders. Directors are selected for their ability to contribute on the broad range of issues with which the Board of Directors must deal. The Board of Directors of the Corporation reviews, through the CGC, the contributions of the directors and determines whether its size promotes effectiveness and efficiency. BCE's Board of Directors believes that its current size promotes effectiveness and efficiency⁽⁹⁾.

The CGC receives suggestions for candidates from individual Board members, the Chief Executive Officer, shareholders, as well as professional search organizations. A guideline for the selection of directors provides that directors elected for the first time after 1996 will commit to being available for a minimum period of five (5) years, and will not normally be eligible to stand for re-election if they have served on the Board for a period of ten (10) successive one-year terms. Former Chief Executive Officers of the Corporation may be invited to serve on the Board for a period not to exceed a total of three (3) successive one-year terms after retirement. The CGC is also charged with the administration of BCE's directors' attendance policy, pursuant to which BCE's Corporate Secretary must report to the CGC the name of any director who held his or her position during the entire previous year and who did not attend 75% of the Board and Committee meetings. The CGC must assess whether the director's attendance record is due to health or other exceptional non-recurring reasons and must take into account its assessment of the director's attendance record in recommending to the Board the list of nominees for election as directors at the next annual meeting of shareholders⁽¹⁰⁾.

Independence of the Board⁽¹¹⁾

The Corporation's general by-laws provide that the Board shall have authority to determine from time to time whether the Chairman shall be an officer or serve solely in a non-executive capacity. Should the Board decide that the Chairman shall be an officer of the Corporation, it is expected that the Board would then designate one of its members as the "lead director" with the responsibility of ensuring that the Board can function independently of management.

For the time being, the Board decided that the chair be separate from management. When the Chairman of the Board is a non-executive position, as is presently the case, then such Chairman has responsibility to ensure that the Board can function independently of management. In addition, directors can add items to Board agendas which are distributed in advance of meetings and agendas for committee meetings are under the responsibility of the chairman of such committees. Furthermore, the Board meets without the Chief Executive Officer when his performance and compensation are discussed and, finally, there is

a process (which includes a questionnaire distributed to directors by the Chairman of the CGC) by which feedback is solicited from directors on how the Board can operate more effectively.

Board committees

There are three standing committees of the Board of Directors: the Audit Committee, the CGC and the MRCC. These committees meet at preset times throughout the year. Additional meetings are held as required. The Audit Committee met six times in 1999, the CGC five times, and the MRCC seven times. The Audit Committee is composed of six members, the CGC of four members and the MRCC of five members. Each committee is composed exclusively of outside (i.e., non-management) directors and of unrelated directors⁽¹²⁾.

Effective January 27, 1999, the Management Resources and Nominating Committee (the "MRNC") has been replaced by two separate committees, the CGC and the MRCC. In essence, the CGC performs the governance and nominating functions (as they pertain to the Board of Directors) previously performed by the MRNC, and the MRCC performs the compensation functions previously performed by the MRNC. Dividing committee responsibilities in this manner has permitted a diversity of membership and resulted in a deeper engagement of committee members to distinct spheres of responsibility, thus enhancing BCE's corporate governance.

Furthermore, in order to promote greater effectiveness of the committees of the Board of Directors, the Audit Committee and the Pension Fund Policy Committee ("PFPC") were combined, effective April 28, 1999, into a single committee, the Audit Committee. Accordingly, all functions previously performed by the PFPC are now performed by the Audit Committee.

THE CORPORATE GOVERNANCE COMMITTEE⁽¹³⁾

The CGC reviews, reports and, where appropriate, provides recommendations to the Board on: candidates for election to the Board of Directors and matters of corporate governance including standards of performance for directors, the size of the Board, tenure of directors, performance of directors, directors' remuneration in relation to current compensation practices, the structure, responsibility and composition of Board committees and the merits of shareholder proposals. The CGC also undertakes periodic surveys of all directors to allow each director to assess the effectiveness of the Board as well as to appraise his or her own participation on the Board. It reports to the Board periodically on the Board's assessment of its effectiveness. It also assists newly appointed Board members in becoming acquainted with the Corporation and its governance process.

THE MANAGEMENT RESOURCES AND COMPENSATION COMMITTEE⁽¹⁴⁾

The MRCC reviews, reports and, where appropriate, provides recommendations to the Board on: the appointment of the Chief

(9) TSE guidelines No. 4, 5 and 7. (10) TSE guideline No. 4. (11) TSE guidelines No. 5 and 12.

(12) TSE guidelines No. 4, 9 and 13. (13) TSE guidelines No. 4, 5, 6, 7, 8 and 10. (14) TSE guidelines No. 1(c) and 11.

Executive Officer and other officers; existing management resources and succession plans for officers and other management ranks; the performance of the Chief Executive Officer and other officers; the Corporation's executive compensation policy and the compensation of the Chief Executive Officer and other officers; and any proposed major changes in organization or personnel, or changes to the Corporation's pension and benefit plans.

THE AUDIT COMMITTEE⁽¹⁵⁾

The roles and responsibilities of the Audit Committee are specifically set forth in BCE's Administrative Resolution. The Audit Committee reviews, reports and, where appropriate, provides recommendations to the Board on: the annual and interim consolidated financial statements and the integrity of the financial reporting of the Corporation; the adequacy of the Corporation's processes for identifying and managing risk; the adequacy of its internal control system; the adequacy of its processes for complying with laws and regulations; the appropriateness of, and compliance with, the policies and practices of the Corporation relating to business ethics; the appointment, terms of engagement, independence and proposed fees of the shareholders' auditor; the appointment and mandate of the internal auditor; the relationship between related entities' audit committees and that of the Corporation; and the relationship between the Audit Committee, other standing committees of the Board of Directors and management. The Audit Committee has direct communication channels with the internal and external auditors to discuss and review specific issues as appropriate.

Since April 28, 1999, the Audit Committee performs all of the functions of the PFPC. Accordingly, the Audit Committee advises the Board of Directors on policy with respect to the administration, funding and investment of the Corporation's pension plan (the "Plan") and fund (the "Fund") and the unitized pooled fund sponsored by the Corporation for the collective investment of the Fund and participating subsidiaries' pension funds (the "Master Fund"). More particularly, the Audit Committee reviews the impact of the Plan liabilities and funding of proposed changes to benefits under the Plan; approves long-term funding objectives in relation to the Plan liabilities; approves the appointment or removal of the actuary of the Plan; and with respect to the Plan, the Fund and the Master Fund, reviews the system in place for carrying out the Corporation's responsibilities as employer and administrator of the Plan, the Fund and the Master Fund, including supervision and monitoring procedures, and reports to the Board of Directors on its appropriateness; approves changes to the investment policies

and goals to be followed in the investment of the Fund and the Master Fund; reviews the investment performance of the Fund and the Master Fund; and reviews and approves the audited financial statements of the Fund and the Master Fund.

DIRECTORS' AND OFFICERS' LIABILITY INSURANCE

Directors' and Officers' liability insurance in the aggregate amount of US \$215 million (approximately Cdn. \$310 million) is purchased for the protection of all the directors and officers of the Corporation, its subsidiaries and certain of its associated companies against liability incurred by such directors and officers. In 1999, the aggregate amount charged against earnings by the Corporation for its portion of the premium paid in respect of its directors and officers as a group was \$609,277. In any case in which the Corporation is not permitted by law to reimburse the insured, the deductible is nil. Where the Corporation is permitted to reimburse the insured, the deductible is US \$1,000,000 (approximately Cdn. \$1,443,000).

ADDITIONAL INFORMATION

The following documents are available to any person upon request. Requests should be addressed to the Corporate Secretary of BCE, at 1000, rue de La Gauchetière Ouest, Suite 3700, Montréal, Québec, Canada H3B 4Y7:

- (a) one copy of BCE's latest Annual Information Form, together with one copy of any document, or the pertinent pages of any document, incorporated by reference therein;
- (b) one copy of the comparative financial statements of BCE for its most recently completed financial year together with the accompanying report of the auditors thereon, both contained in BCE's 1999 Annual Report, and one copy of any interim financial statements of BCE subsequent to the financial statements for its most recently completed financial year;
- (c) one copy of this Notice of 2000 Annual and Special Meeting and Management Proxy Circular;
- (d) one copy of BCE's and Nortel Networks' Notice of Application and Joint Arrangement Circular;
- (e) one copy of Nortel Networks' 1999 annual consolidated financial statements and other financial information distributed to BCE's common shareholders with this Notice of 2000 Annual and Special Meeting and Management Proxy Circular; and
- (f) one copy of the Nortel Networks' 1998 Proxy Circular and Proxy Statement.

⁽¹⁵⁾ TSE guidelines No. 1(b), 1(e) and 13.

I, the undersigned, Corporate Secretary of BCE Inc., hereby certify that the contents of this Circular, including Schedules "A", "B", "C" and "D" hereto, and the sending of this Circular to each shareholder entitled to receive notice of the Meeting, to each director, to the auditors of the Corporation and to the appropriate governmental agencies were approved by the Board of Directors of the Corporation at a meeting held on March 13, 2000.

A handwritten signature in black ink, appearing to read 'M. Ryan', with a stylized flourish at the end.

MARC J. RYAN
Corporate Secretary

Certified at Montréal,
this 13th day of March, 2000

SCHEDULE "A"

Special Resolution Approving the Plan of Arrangement

RESOLVED, as a special resolution:

1. THAT the Arrangement under section 192 of the *Canada Business Corporations Act* substantially as set forth in the Plan of Arrangement attached as Appendix I to the Amended and Restated Arrangement Agreement attached as Annex F to the Notice of Application and Joint Arrangement Circular (the "Arrangement Circular") of BCE Inc. ("BCE") and Nortel Networks Corporation ("Nortel Networks") be and is hereby approved and authorized;
2. THAT the Amended and Restated Arrangement Agreement made as of January 26, 2000 among BCE, Nortel Networks, 3056074 Canada Inc., 3263207 Canada Inc. and New Nortel Inc., attached as Annex F to the Arrangement Circular, be and is hereby confirmed, ratified and adopted;
3. THAT notwithstanding that this resolution has been duly passed by the shareholders of BCE or has received the approval of the Superior Court of Justice of Ontario, the Board of Directors of BCE may amend or decide not to proceed with the Arrangement or revoke this resolution at any time prior to the issue of certificates giving effect to the Arrangement without further approval of the shareholders of BCE; and
4. THAT any director or officer of BCE be and is hereby authorized, for and on behalf of BCE, to execute and deliver articles of arrangement and all other documents and do all such other acts or things as such person may determine to be necessary or advisable to give effect to this resolution, the execution of any such document or the doing of any such other act or thing being conclusive evidence of such determination.

SCHEDULE "B"

Resolution Confirming the Shareholder Rights Plan

RESOLVED:

1. THAT the Shareholder Rights Plan adopted by the Board of Directors of BCE Inc. ("BCE") on February 23, 2000, on the terms of the Shareholder Rights Plan Agreement dated as of February 23, 2000, as amended as of March 13, 2000, between BCE and Montreal Trust Company, as Rights Agent, and all Rights issued pursuant to such Plan, are hereby ratified, confirmed and approved; and

2. THAT any director or officer of BCE be and is hereby authorized, for and on behalf of BCE, to execute and deliver all documents and do all such other acts or things as he or she may determine to be necessary or advisable to give effect to this resolution, the execution of any such document or the doing of any such other act or thing being conclusive evidence of such determination.

SCHEDULE “C”

Summary of the principal terms of the Rights Plan

Issue of Rights

To implement the Rights Plan, the Board of Directors authorized the issue at 4:00 p.m. (Montréal time) on February 23, 2000 (the “Record Time”) of one Right in respect of each outstanding common share to holders of record at the Record Time. The Board of Directors also authorized the issue of one Right in respect of each common share issued after the Record Time and prior to the Separation Time (as defined below) and the Expiration Time (as defined below). The Corporation has entered into an agreement (the “Rights Agreement”) dated as of February 23, 2000, as amended as of March 13, 2000, with Montreal Trust Company, as rights agent, which provides for the exercise of the Rights, the issue of certificates evidencing the Rights and other related matters.

Exercise of Rights

The Rights are not exercisable initially and certificates representing the Rights will not be sent to shareholders. Until the Separation Time (as defined below), the Rights will be transferred with the associated common shares.

The Rights will expire at the close of the Corporation’s annual meeting next following the third anniversary date of the Rights Agreement (the “Expiration Time”) unless earlier redeemed or exchanged by the Corporation.

Exercise Price

The initial exercise price of the Rights, from the Record Time to 4:00 p.m. on the first trading day after the effective date of the Arrangement, is \$750 and, from and after 4:00 p.m. on the first trading day after the effective date of the Arrangement on which the common shares begin to trade giving effect to the Arrangement, will be the product of (x) the closing price of one common share of the Corporation on The Toronto Stock Exchange on that trading day and (y) four. The exercise price of the Rights and the number of securities issuable upon the exercise of the Rights are subject to adjustment from time to time to prevent dilution upon the occurrence of certain corporate events affecting the common shares.

Separation Time

Until the Separation Time, the Rights will trade together with the common shares, will be represented by the common share certificates and will not be exercisable. After the Separation Time, the Rights will become exercisable, will be evidenced by Rights certificates and will be transferable separately from the common shares. Certificates for common shares issued after the Record Time will bear a legend incorporating the Rights Agreement by reference. Promptly after the Separation Time, separate certificates evidencing the Rights (“Rights Certificates”), together with a disclosure statement prepared by the Corporation describing the Rights, will be mailed to the holders of record of common shares as of the Separation Time (other than the Acquiring Person) and the Rights Certificates alone will evidence the Rights.

The “Separation Time” is the close of business on the eighth trading day (or such later day as may be determined by the Board of Directors) after the earlier of:

- (a) the “Stock Acquisition Date”, which is the date of the first public announcement of facts indicating that a person has become an Acquiring Person (as defined below); and
- (b) the date of the commencement of, or first public announcement of the intent of any person (other than the Corporation or a subsidiary of the Corporation) to commence, a take-over bid (other than a Permitted Bid or a Competing Permitted Bid (described below)).

A take-over bid is an offer to acquire Beneficial Ownership of shares of the Corporation to which is attached a right to vote for the election of all directors generally (“Voting Shares”) which, together with the Voting Shares Beneficially Owned by the person making the offer to acquire, constitute in the aggregate more than 20% of the Voting Shares.

After the Separation Time, but prior to the occurrence of a Flip-in Event (described below), each Right may be exercised to purchase one common share of the Corporation at the stipulated exercise price.

Permitted Bid

A “Permitted Bid” is defined in the Rights Agreement as a take-over bid made by take-over bid circular and which also complies with the following requirements:

- (a) the bid is made by take-over bid circular to all holders of Voting Shares wherever resident, other than the offeror;
- (b) Voting Shares may be deposited under the bid any time between the date of the bid and the date Voting Shares are taken up and paid for, and any Voting Shares deposited under the bid may be withdrawn until taken up and paid for; and
- (c) the take-over bid must be open for at least 60 days and more than 50% of the outstanding Voting Shares of the Corporation (other than shares Beneficially Owned on the date of the bid by the offeror and certain of its related parties) must be deposited under the bid and not withdrawn before any shares may be taken up and paid for and, if 50% of the Voting Shares are so deposited and not withdrawn, an announcement of such fact must be made and the bid must remain open for a further 10 business day period.

A Permitted Bid, even if not approved by the Board of Directors, may be made directly to the shareholders of the Corporation. Shareholders’ approval at a special meeting will not be required for a Permitted Bid. Instead, shareholders of the Corporation will initially have 60 days to deposit their shares.

If a potential offeror does not wish to make a Permitted Bid, it can negotiate with, and obtain the prior approval of, the Board of Directors to make a bid by take-over bid circular on terms which the Board of Directors considers fair to all shareholders. In such circumstances, the Board of Directors may waive the application of the Rights Plan to that transaction, thereby allowing such bid to proceed without dilution to the offeror, and will be deemed to have waived the application of the Rights Plan to all other contemporaneous bids made by take-over bid circular.

A “Competing Permitted Bid” is a take-over bid that is made after a Permitted Bid has been made but prior to its expiry and satisfies all the requirements of a Permitted Bid as described above, except that a Competing Permitted Bid is not required to remain open for 60 days so long as it is open until the later of 21 days (or such longer minimum period of days that a take-over bid must remain open for acceptance under the *Securities Act* (Ontario)) after the date the Competing Permitted Bid was made and 60 days after the earliest date on which a Permitted Bid or Competing Permitted Bid then in existence was made.

Acquiring Person

In general, an “Acquiring Person” is a person who is the Beneficial Owner of 20% or more of the Corporation’s outstanding Voting Shares. Currently, no Voting Shares other than the common shares are outstanding. Excluded from the definition of “Acquiring Person” are the Corporation and its subsidiaries, and any person who becomes the Beneficial Owner of 20% or more of the outstanding Voting Shares as a result of one or more, or any combination of, a Voting Share Reduction, a Permitted Bid Acquisition, an Exempt Acquisition and a Pro Rata Acquisition. Under the Rights Plan:

- (a) a “Pro Rata Acquisition” is an acquisition of Voting Shares pursuant to a stock dividend, a stock split or other similar event or a dividend reinvestment plan or other plan made available by the Corporation to holders of all of its Voting Shares. It also means the acquisition or exercise of share purchase rights distributed pursuant to a rights offering or a public or private distribution of Voting Shares but only if the acquisition allows the acquiror to maintain its percentage holding of Voting Shares;
- (b) a “Voting Share Reduction” is an acquisition or redemption by the Corporation of Voting Shares;
- (c) an “Exempt Acquisition” is a share acquisition in respect of which the Board of Directors has waived the application of the Rights Plan or which was made prior to the date of the Rights Plan; and
- (d) a “Permitted Bid Acquisition” is an acquisition of Voting Shares made pursuant to a Permitted Bid or a Competing Permitted Bid.

Beneficial Ownership

In general, a person “Beneficially Owns” Voting Shares held by such person and Voting Shares actually held by others in circumstances where those holdings are or should be grouped together for purposes of the Rights Plan. Included are holdings by the

person's "Affiliates" (generally, a person that controls, is controlled by, or is under common control with, the other person) and "Associates" (generally, relatives sharing the same residence). Also included are securities which the person or any of the person's Affiliates or Associates has the right to acquire within 60 days (other than customary agreements with and between underwriters and/or banking group and/or selling group members with respect to a distribution of securities, and other than pledges of securities in the ordinary course of business).

A person is also deemed to "Beneficially Own" any securities that are Beneficially Owned by any other person with which the person is acting jointly or in concert (a "Joint Actor"). Under the Rights Agreement, a person is a Joint Actor with anyone who is a party to an agreement, commitment or understanding with the first person or another person acting jointly or in concert with the first person to acquire or offer to acquire Voting Shares.

The definition of "Beneficial Ownership" contains several exclusions whereby a person is not considered to "Beneficially Own" a security. There are exemptions from the "Beneficial Ownership" provisions for institutional shareholders acting in the ordinary course of business. These exemptions apply to (i) a fund manager ("Fund Manager") which holds securities in the ordinary course of business in the performance of its duties for the account of any other person (a "Client"); (ii) a licensed trust company ("Trust Company") acting as trustee or administrator or in a similar capacity in relation to accounts of deceased or incompetent persons ("Estate Accounts") or in relation to other accounts (each an "Other Account") and which holds such security in the ordinary course of its duties for such accounts; (iii) the administrator or the trustee (a "Plan Administrator") of one or more pension funds or plans (a "Pension Plan") registered under Canadian or U.S. law and the Pension Plan itself; or (iv) an agency (the "Crown Agent") established by statute, the ordinary business or activity of which includes the management of investment funds for employee benefit plans, pension plans, insurance plans, or various public bodies. The foregoing exemptions only apply so long as the Fund Manager, Trust Company, Plan Administrator or Crown Agent is not then making or has not then announced a current intention to make a take-over bid, other than an offer to acquire Voting Shares or other securities pursuant to certain market transactions made in the ordinary course of business, a distribution by the Corporation or by means of a Permitted Bid.

A person will not be deemed to "Beneficially Own" a security because (i) the person is a Client of the same Fund Manager, an Estate Account or an Other Account of the same Trust Company, or Pension Plan with the same Plan Administrator as another person or Pension Plan on whose account the Fund Manager, Trust Company or Plan Administrator, as the case may be, holds such security; or (ii) the person is a Client of a Fund Manager, Estate Account, Other Account or Pension Plan, and the security is owned by the Fund Manager, Trust Company or Plan Administrator, as the case may be.

Finally, a person (a "Bidder") will not be deemed to "Beneficially Own" a security because it has entered into an agreement (a "Lock-up Agreement") with a shareholder of the Corporation pursuant to which the shareholder agrees to deposit its shares to a take-over bid made by the Bidder or an affiliate or associate of, or person acting jointly or in concert with, the Bidder so long as the agreement either (i) places no limit on the right of the shareholder to withdraw its shares in order to deposit them to a higher competing offer or (ii) limits such right to withdraw to competing offers which exceed the bid price by more than an amount specified in the Lock-up Agreement, and the specified amount is no more than 7% of the bid price. In either case, the Lock-up Agreement must not provide for break-up fees or other payments, payable if the shareholder fails to deposit its shares to the take-over bid in order to accept or support a competing transaction, which exceed the greater of (i) 2.5% of the price payable to the shareholder under the bid referred to in the agreement and (ii) one-half of the increased value that is offered under the competing offer. However, a Lock-up Agreement may contain a right of first refusal or require a period of delay to give the Bidder an opportunity to match a higher price in a competing take-over bid (or other similar limitation on a shareholder's right to withdraw shares under the Lock-up Agreement), so long as the limitation does not preclude the exercise by the shareholder of the right to withdraw shares during the period of the competing take-over bid or transaction.

Flip-in Event

Under the Rights Agreement, a Flip-in Event is any transaction or event in which any person becomes an Acquiring Person. If a Flip-in Event occurs that has not been waived by the Board of Directors (see "Redemption, Waiver and Termination" below), from and after the close of business on the eighth trading day following the Stock Acquisition Date:

- (a) any Rights Beneficially Owned by the Acquiring Person and Affiliates, Associates and transferees of the Acquiring Person or any Joint Actors of the Acquiring Person will become void; and

- (b) each Right (other than Rights which are void) will entitle the holder thereof to purchase common shares having a market price equal to twice the Exercise Price for an amount equal to the Exercise Price.

Accordingly, a Flip-in Event that is not approved by the Board of Directors will result in significant dilution to an Acquiring Person. The Board of Directors may, with shareholder approval, at any time prior to the occurrence of a Flip-in Event, elect to redeem all of the outstanding Rights at a redemption price of \$0.0001 per Right.

For example, if at the time of the Stock Acquisition Date the Exercise Price is \$750 and the Market Price of a common share is \$200, the holder of each Right would be entitled to purchase 7.5 common shares for \$100 per share (that is, at a 50% discount from the Market Price).

Redemption, Waiver and Termination

- (a) *Redemption of Rights on Approval of Holders of Voting Shares and Rights.* The Board of Directors acting in good faith may, after having obtained the prior approval of the holders of Voting Shares or Rights, at any time prior to the later of the Stock Acquisition Date and the Separation Time, elect to redeem all but not less than all of the then outstanding Rights at a redemption price of \$0.0001 per Right, appropriately adjusted for anti-dilution as provided in the Rights Agreement (the "Redemption Price").
- (b) *Waiver of Inadvertent Acquisition.* The Board of Directors may waive the application of the Rights Plan in respect of the occurrence of any Flip-in Event if (i) the Board of Directors has determined, following the Stock Acquisition Date and prior to the Separation Time, that a person became an Acquiring Person under the Rights Plan through inadvertence and (ii) the Acquiring Person has reduced its Beneficial Ownership of Voting Shares such that the person is no longer an Acquiring Person.
- (c) *Permitted Bid Acquisition.* In the event of a successful Permitted Bid or Competing Permitted Bid, the Board of Directors shall be deemed to have elected to redeem the Rights at the Redemption Price.
- (d) *Discretionary Waiver with Mandatory Waiver of Concurrent Bids.* The Board of Directors may, prior to the occurrence of the relevant Flip-in Event, waive the application of the Rights Plan to a Flip-in Event that may occur by reason of a take-over bid made by take-over bid circular to all holders of record of Voting Shares. However, if the Board of Directors waives the application of the Rights Plan, the Board of Directors shall be deemed to have waived the application of the Rights Plan in respect of any other Flip-in Event occurring by reason of such a take-over bid made prior to the expiry of a bid for which a waiver is, or is deemed to have been, granted.
- (e) *Redemption of Rights on Withdrawal or Termination of Bid.* Where a take-over bid that is not a Permitted Bid is withdrawn or otherwise terminated after the Separation Time and prior to the occurrence of a Flip-in Event, the Board of Directors may elect to redeem all the outstanding Rights at the Redemption Price and reissue Rights, whereupon all the provisions of the Rights Plan shall continue to apply as if the Separation Time had not occurred and Rights certificates had not been mailed, and the Separation Time shall be deemed not to have occurred.

If the Board of Directors is deemed to have elected or elects to redeem the Rights as described above, the right to exercise the Rights will thereupon terminate, without further action and without notice, and the only right thereafter of the holders of Rights is to receive the Redemption Price (as defined in the Rights Plan). Within 10 days of any such election or deemed election to redeem the Rights, the Corporation will notify the holders of the common shares or, after the Separation Time, the holders of the Rights.

Anti-Dilution Adjustments

The exercise price of a Right, the number and kind of securities subject to purchase upon exercise of a Right, and the number of Rights outstanding, will be adjusted in certain events, including:

- (a) if there is a stock dividend (other than pursuant to any dividend reinvestment program) on the common shares, or a subdivision or consolidation of the common shares, or an issuance of common shares in respect of, in lieu of or in exchange for common shares;
or

- (b) if the Corporation fixes a record date for the distribution to all holders of common shares of certain rights, options or warrants to acquire common shares, or for the making of a distribution to all holders of common shares of evidences of indebtedness or assets (other than regular periodic cash dividends or stock dividends payable in common shares) or other securities.

No adjustment in exercise price will be made unless it represents, on a cumulative basis with other unreflected adjustments, at least a 1% change in the exercise price.

The Rights Plan provides that the anti-dilution provisions do not apply to the transactions comprising part of the Arrangement.

Supplements and Amendments

The Board of Directors may amend the Rights Plan in order to cure any clerical or typographical error therein and, at or prior to the Meeting, may amend the Rights Plan in order to make any changes which the Board of Directors acting in good faith may deem necessary or desirable. Changes that are necessary to maintain the validity of the Rights Agreement and the Rights as a result of any change in any applicable legislation or regulation may be made by the Board of Directors and will remain effective if confirmed by the shareholders or, after the Separation Time, the holders of the Rights.

Subject to the above exceptions, after the Meeting, any amendment, variation or deletion of or from the Rights Agreement and the Rights, is subject to the prior approval of the holders of Voting Shares, or, after the Separation Time, the holders of the Rights.

Expiration

If the Rights Plan is approved at the Meeting, it will remain in force until the Expiration Time, which is the earlier of (i) the time at which the right to exercise Rights shall terminate pursuant to the Rights Plan and (ii) the close of the first annual meeting of shareholders of the Corporation following the third anniversary of the Rights Plan.

SCHEDULE "D"

The following two shareholder proposals have been submitted by the Association for the Protection of Quebec Savers and Investors Inc., of 737, Versailles Street, Montréal, Québec, H3C 1Z5 ("APEIQ") for consideration at the Annual and Special Meeting of Shareholders of BCE Inc. These proposals and APEIQ's supporting comments are set out verbatim, in italics, below.

Proposal No. 1

It is hereby proposed that any information originating from BCE Inc. which is liable to significantly influence the value of shares be communicated simultaneously to shareholders including, but not limited to, by means of the establishment and issuance of a press release, except to the extent permitted or required by law or by stock exchange regulations.

*Institutional investors who manage retirement funds and mutual fund investment firms have become privilege players in the today's stock market. This carries with it the risk of creating first-, second- and third-class shareholders with the small shareholder, falling into the later category, not being privy to first hand information which may allow him to maximise his holdings or his portfolio of BCE Inc. shares. The Canada Business Corporations Act provides that all shareholders are *pari passu*, which is to say that they should be assured of equal treatment on the part of corporations.*

This proposal is inspired by OMERS, by Glorianne Stromberg, by the Financial Post and by the report of the Permanent Senatorial Committee on Banking and Business which recommends that "Individual investors must have timely access to information provided to corporations and institutional investors and management should invite the written press to attend its meetings."

BCE's position:

BCE does its utmost to ensure that all material information is disclosed to all shareholders of the Corporation simultaneously, in the most efficient manner possible in accordance with applicable securities legislation and the rules of the stock exchanges on which BCE's shares are listed. For example, BCE's financial results are issued via a press release that all interested parties may simultaneously access on BCE's Internet site and on the Internet sites of various wire services and which forms the basis of newspaper articles. To augment the information provided in the press release, BCE holds a conference call with the investment community and the media a few hours after the results and press release have been issued. This conference call is broadcast live on the Internet and a replay facility of the audio of the conference call is made available for two weeks subsequent to the conference call. A supplementary information package that is provided to the investment community is also posted on BCE's web site for all to view and print. In addition, BCE's Investor Relations personnel are available to all investors to handle questions regarding the release of any material information. These practices, in the aggregate, place BCE among the leaders in corporate disclosure in Canada.

Proposal No. 1 is consistent with the Corporation's current practices while giving the Corporation the flexibility to determine from time to time whether its disclosure practices require adjustments and to implement such adjustments. The Board of Directors is of the view that Proposal No. 1 also incorporates the flexibility to address particular circumstances that may arise in the future where it may be advantageous to the Corporation to disclose information to certain securities holders in the necessary course of business as permitted by securities legislation.

The Board of Directors and management therefore recommend voting **FOR** this proposal.

Proposal No. 2

It is hereby proposed that BCE Inc. divulge, in its management proxy circular, the fees paid to the accountant firm which performs its audit, as well as all fees paid to this firm's subsidiaries or all other enterprises in which the accounting firm or firms hold a substantial interest.

Mr. Claude Lamoureux, President and Chairman of the Board of Directors of the Ontario Teachers Pension Plan (OTPP) stated on April 28, 1999 in Montreal that "Several auditors receive the larger part of their fees not from the verification but from other consulting services carried out for the client. It is difficult for an auditor to be impartial when we consider that the major portion of his fees depend on the good will of management. I would suggest that all companies be required to divulge, in their annual reports, the amounts paid as

consulting fees to the auditing firm. Obviously, the best solution would be to prohibit companies from awarding consulting contracts to their auditors.”

The OTPP-Teachers is one of the largest institutional investors in Canada (\$60 billion portfolio) along with the Caisse de dépôt du Québec. The aforementioned proposal would contribute to the elimination of complacent annual reports and would reinforce the independence of the auditing firms with regards to their responsibilities to shareholders who vote on their nomination and remuneration in accordance with the Canada Business Corporations Act.

BCE's position:

The Audit Committee of the Board of Directors of BCE, which is comprised of non-employee directors, reviews, reports and, where appropriate, provides recommendations to the Board on the independence of the shareholders' auditors. Furthermore, the United States Securities and Exchange Commission's and the American Institute of Certified Public Accountants' Independence Standards Board's Standard No. 1, entitled "Independence Discussions with Audit Committees", requires that BCE's auditors confirm in writing their independence and disclose to the Audit Committee all relationships between the auditors and their related entities and BCE and its related entities that, in the auditors' professional judgement, may reasonably be thought to bear on independence.

A large part of the fees paid by BCE to its auditors relates to an extension of core audit work, including, for example, providing tax advice and advice on accounting issues. Another large part of the fees paid by BCE to its auditors relates to management consulting services, where BCE's auditors have been selected after giving consideration to other providers of such services and after giving due consideration to the issue of auditor independence. It has been beneficial to BCE to avail itself of these services. The retention of the auditors for non audit services in the future will continue as long as the safeguards regarding auditors independence are met to the satisfaction of the Corporation.

BCE fully agrees with the principle that its auditors be and be perceived to be completely independent of management. Therefore, although BCE believes that sufficient processes are in place regarding the independence of its auditors, BCE intends to disclose to its shareholders the amounts paid to its auditors and their affiliates going forward in its management proxy circular. It should be noted that the predecessor of BCE, Bell Canada, used to disclose in the past information of this nature in accordance with the requirements of the United States Securities and Exchange Commission that were in force at the time.

The Board of Directors and management therefore recommend voting **FOR** this proposal.

Information concerning the Corporation, in addition to the documents referred to on page 22 of the BCE notice of 2000 annual and special meeting and management proxy circular, is available upon request from the Vice-President — Investor Relations, at 1000, rue de La Gauchetière Ouest, Suite 3700, Montréal, Québec, Canada H3B 4Y7, or by calling 1(800)339-6353. This additional information includes the management's discussion and analysis of the first, second and third quarter results of the Corporation and the Corporation's quarterly supplements to its earnings press releases. These documents, as well as the Corporation's annual information form, annual and quarterly reports and news releases, are also available on the Corporation's World Wide Web site (www.bce.ca).



p. 43 re dividends



**NOTICE OF APPLICATION
AND
JOINT ARRANGEMENT CIRCULAR**

**ARRANGEMENT INVOLVING
BCE INC.
AND
NORTEL NETWORKS CORPORATION**

**SUPPLEMENT TO
THE MANAGEMENT PROXY CIRCULAR OF BCE INC.
DATED AS OF FEBRUARY 29, 2000
AND
THE PROXY CIRCULAR AND PROXY STATEMENT
OF NORTEL NETWORKS CORPORATION
DATED AS OF FEBRUARY 29, 2000**

NOTICE TO UNITED STATES SHAREHOLDERS

This Arrangement Circular has been prepared by BCE and Nortel Networks in accordance with the disclosure requirements of Canada. BCE Common Shareholders and Nortel Networks Common Shareholders should be aware that such requirements are different from those of the United States. Some of the financial information of BCE and Nortel Networks which is included or incorporated by reference herein has been prepared in accordance with Canadian generally accepted accounting principles and is subject to Canadian auditing and auditor independence standards and, thus, may not be comparable to financial statements of United States companies. BCE Common Shareholders should note, however, that BCE prepares a reconciliation of earnings reported in accordance with U.S. generally accepted accounting principles, as set forth in Note 19 to its audited consolidated financial statements for the fiscal year ended December 31, 1999, which are included in its Annual Report for the fiscal year ended December 31, 1999. BCE Common Shareholders and Nortel Networks Common Shareholders should also note, however, that Nortel Networks prepares additional financial information in accordance with U.S. generally accepted accounting principles, as set forth in its Annual Report on Form 10-K for the fiscal year ended December 31, 1999, which is incorporated by reference herein. See “Document Incorporated by Reference.”

BCE Common Shareholders and Nortel Networks Common Shareholders should be aware that the receipt of the securities described herein pursuant to the Arrangement and the other transactions described herein may have tax consequences. **In particular, for BCE Common Shareholders who are United States taxpayers, the receipt of New Nortel Common Shares will be a taxable distribution for United States federal income tax purposes, resulting in a taxable dividend approximately equal to the fair market value of the New Nortel Common Shares received. BCE Common Shareholders who are United States taxpayers should consult their own tax advisors.** Nortel Networks Common Shareholders who are United States taxpayers and who hold Nortel Networks Common Shares as capital assets, other than Dissenting Nortel Networks Shareholders or shareholders subject to special rules, will generally recognize no gain or loss for United States federal income tax purposes as a result of the Arrangement. See “Income Tax Considerations”.

The enforcement by investors of civil liabilities under the United States securities laws may be affected adversely by the fact that each of BCE, Nortel Networks and New Nortel is incorporated or organized under the laws of a jurisdiction other than the United States, that some or all of their respective officers and directors are residents of countries other than the United States, that some or all of the experts named in this Arrangement Circular may be residents of countries other than the United States, and that all or a substantial portion of the assets of BCE, Nortel Networks and New Nortel and such persons may or will be located outside the United States.

See “Cautionary Statement Regarding Forward-Looking Statements and Risk Factors” beginning on page 12 for a discussion of certain factors you should consider in deciding whether to vote in favour of the Arrangement.

CURRENCY EXCHANGE RATES

Except where otherwise indicated, all dollar amounts set forth in this Arrangement Circular are expressed in Canadian dollars and “\$” and “Cdn\$” shall mean Canadian dollars. The following table sets forth (i) the noon rates of exchange for the Canadian dollar, expressed in Canadian dollars per United States dollar, in effect at the end of the periods indicated, (ii) the average noon exchange rates for such periods, and (iii) the high and low exchange rates during such periods, based on the rates quoted by the Bank of Canada.

Canadian Dollar per US Dollar	Jan. 1, 2000 through Feb. 29, 2000	Year Ended December 31,		
		1999	1998	1997
Noon rate at end of period	Cdn\$1.4488	Cdn\$1.4433	Cdn\$1.5305	Cdn\$1.4291
Average noon rate for period	1.4500	1.4858	1.4831	1.3844
High for period	1.4668	1.5475	1.5845	1.4399
Low for period	1.4318	1.4420	1.4040	1.3345

On February 29, 2000, the rate of exchange based on the noon rate as quoted by the Bank of Canada was Cdn\$1.4488.

JOINT ARRANGEMENT CIRCULAR

This Arrangement Circular is being furnished by BCE in connection with the solicitation of proxies by management of BCE for use at the BCE Meeting in connection with the resolution set forth in Annex A to this Arrangement Circular. This Arrangement Circular is also being furnished by Nortel Networks in connection with the solicitation of proxies by the Nortel Networks Board and the management of Nortel Networks for use at the Nortel Networks Meeting in connection with the resolutions set forth in Annex B and Annex C to this Arrangement Circular.

It is anticipated that this Arrangement Circular will be distributed to BCE Common Shareholders and Nortel Networks Common Shareholders on or about March 24, 2000. Unless otherwise indicated, information in this Arrangement Circular is given as at February 29, 2000. All information in this Arrangement Circular relating to BCE has been supplied by BCE. All information in this Arrangement Circular relating to Nortel Networks and New Nortel has been supplied by Nortel Networks. Certain capitalized terms used, but not otherwise defined, in this Arrangement Circular have the meanings ascribed to them under the heading "Glossary of Terms" found at page 1 of this Arrangement Circular.

No person is authorized to give any information or make any representation not contained or incorporated by reference in this Arrangement Circular and, if given or made, such information or representation should not be relied upon as having been authorized. This Arrangement Circular does not constitute an offer to sell, or a solicitation of an offer to purchase, any securities, or the solicitation of a proxy, by any person in any jurisdiction in which such an offer or solicitation is not authorized or in which the person making such offer or solicitation is not qualified to do so or to any person to whom it is unlawful to make such an offer or solicitation of an offer or proxy solicitation. Neither delivery of this Arrangement Circular nor any distribution of the securities referred to in this Arrangement Circular shall, under any circumstances, create an implication that there has been no change in the information set forth herein since the date of this Arrangement Circular.

This Arrangement Circular forms part of and is incorporated into the Management Proxy Circular of BCE and the Proxy Circular and Proxy Statement of Nortel Networks (collectively, the "Management Circulars"). The Management Circulars contain important information and should be read in conjunction with this Arrangement Circular. Additional copies of the Management Circulars may be obtained by contacting the applicable company, or its transfer agent, as follows:

For BCE:		For Nortel Networks:	
Corporate Secretary BCE Inc. 1000 rue de La Gauchetière Ouest Suite 3700 Montréal, Québec Canada H3B 4Y7	Montreal Trust Company 1800 McGill College Avenue 6th Floor Montréal, Québec Canada H3A 3K9	Corporate Secretary Nortel Networks Corporation 8200 Dixie Road Suite 100 Brampton, Ontario Canada L6T 5P6	Montreal Trust Company of Canada 151 Front Street West 8th Floor Toronto, Ontario Canada M5J 2N1
Phone: 1 (800) 339-6353 Fax: (514) 786-3970 Email: investor.relations@bce.ca www.bce.ca	Phone: 1 (800) 561-0934 (in Canada and the United States); (514) 982-7555 (in the Montréal area or from any other country) Fax: (514) 982-7635 Email: faq@montrealtrust.com	Phone: (905) 863-0000 Fax: (905) 863-8423 www.nortelnetworks.com	Phone: 1 (800) 834-9814 (in Canada and the United States); (416) 981-9633 (in the Toronto area or from any other country) Fax: (416) 981-9507 Email: faq@montrealtrust.com

DOCUMENT INCORPORATED BY REFERENCE

The Nortel Networks' Annual Report on Form 10-K (excluding any Exhibits thereto) for the fiscal year ended December 31, 1999, filed in lieu of an annual information form, which includes Nortel Networks' Consolidated Balance Sheet as at, and Nortel Networks' Consolidated Statements of Operations, Shareholders' Equity and Cash Flows for the year ended, December 31, 1999, and the report of the auditors thereon, is incorporated by reference into, and forms an integral part of, this Arrangement Circular. Copies of the Annual Report on Form 10-K may be obtained by contacting the Corporate Secretary of Nortel Networks as noted above.

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GLOSSARY OF TERMS

Unless the context otherwise requires, the following terms shall have the following meanings when used in this Arrangement Circular:

“3263207” means 3263207 Canada Inc., a wholly-owned subsidiary of BCE governed by the CBCA.

“Arrangement” means the arrangement under Section 192 of the CBCA contemplated by the Plan of Arrangement.

“Arrangement Agreement” means the amended and restated arrangement agreement made as of January 26, 2000 among BCE, Nortel Networks, 3263207, Stockco and New Nortel, a copy of which is set out in Annex F to this Arrangement Circular, and any subsequent amendments made thereto.

“Arrangement Circular” means this Notice of Application and Joint Arrangement Circular incorporated into, and forming a part of, each of the Management Circulars.

“Articles of Arrangement” means the articles of arrangement relating to the Arrangement.

“Articles of New Nortel” means the original or restated articles of incorporation of New Nortel and the Articles of Arrangement, and includes any amendments thereto.

“BCE” means BCE Inc., a corporation governed by the CBCA.

“BCE 1985 SOP” means the BCE Inc. Long-Term Incentive (Stock Option) Program (1985), as amended.

“BCE 1999 SOP” means the BCE Inc. Long-Term Incentive (Stock Option) Program (1999), as amended.

“BCE Arrangement Resolution” means the special resolution approving the Arrangement and related matters, the full text of which is set out in Annex A to this Arrangement Circular, to be considered and, if deemed advisable, passed with or without variation by the BCE Common Shareholders at the BCE Meeting.

“BCE Board” means the board of directors of BCE.

“BCE Class B Shares” means the non-voting class B shares of BCE, which shares will be issued to BCE Common Shareholders and purchased for cancellation by BCE as part of the Arrangement.

“BCE Common Shareholders” means the holders of BCE Common Shares.

“BCE Common Shares” means the common shares of BCE.

“BCE Existing Option” means an option exercisable for BCE Common Shares granted by BCE under one of the BCE Option Plans and outstanding immediately prior to the Effective Time.

“BCE Meeting” means the annual and special meeting of the holders of BCE Common Shares to be held on April 26, 2000 to consider, among other things, the BCE Arrangement Resolution, and any adjournments or postponements thereof.

“BCE Optionholders” means the holders of BCE Existing Options.

“BCE Option Plans” means the BCE 1985 SOP and the BCE 1999 SOP.

“BCE Preferred Shares” means the preferred shares of BCE.

“BCE Replacement Option” means an option exercisable for one BCE Common Share granted by BCE to BCE Optionholders pursuant to the Arrangement.

“Canadian Federal Tax Ruling” means the advance income tax rulings and opinions from the CCRA dated March 3, 2000 confirming the income tax consequences of certain aspects of the Arrangement.

“CBCA” means the *Canada Business Corporations Act*, as amended.

“CCRA” means the Canada Customs and Revenue Agency (formerly Revenue Canada).

“Certificate of Arrangement” means the certificate of arrangement to be issued by the Director under the CBCA giving effect to the Arrangement.

“Court” means the Superior Court of Justice of Ontario.

“CTV” means CTV Inc., a corporation governed by the *Business Corporations Act* (Ontario).

“Director” means the person appointed as the Director under the CBCA.

“Dissenting BCE Shareholder” means a BCE Common Shareholder whose shares are registered in his or her name on the common share register of BCE and who validly exercises the right of dissent provided under the Interim Order in respect of his or her BCE Common Shares.

“Dissenting Nortel Networks Shareholder” means a Nortel Networks Common Shareholder whose shares are registered in his or her name on the common share register of Nortel Networks and who validly exercises the right of dissent provided under the Interim Order in respect of his or her Nortel Networks Common Shares.

“Effective Date” means the date shown on the Certificate of Arrangement to be issued by the Director under the CBCA giving effect to the Arrangement, expected to be May 1, 2000 or such later date on which the conditions to the Arrangement have been met.

“Effective Time” means the earliest possible moment on the Effective Date.

“Final Order” means the order of the Court approving the Arrangement.

“Interim Order” means the order of the Court dated March 15, 2000 providing, among other things, for the calling of the BCE Meeting and the Nortel Networks Meeting, a copy of which is set out in Annex E to this Arrangement Circular.

“Internal Revenue Code” means the United States Internal Revenue Code of 1986, as amended.

“IRS” means the United States Internal Revenue Service.

“Management Circulars” means the Management Proxy Circular of BCE and the Proxy Circular and Proxy Statement of Nortel Networks, of each of which this Arrangement Circular forms a part, furnished in connection with the solicitation of proxies for use at the BCE Meeting and the Nortel Networks Meeting, respectively.

“Morgan Stanley” means Morgan Stanley Canada Limited, financial advisor to BCE.

“New Nortel” means New Nortel Inc., a corporation governed by the CBCA.

“New Nortel/BCE Option” means an option exercisable for approximately 0.78 of a New Nortel Common Share (before giving effect to the New Nortel Stock Split) granted pursuant to the Arrangement by New Nortel to the holder of a cancelled Stockco/BCE Option.

“New Nortel Board” means the board of directors of New Nortel.

“New Nortel Common Shareholders” means the holders of New Nortel Common Shares.

“New Nortel Common Shares” means the common shares of New Nortel.

“New Nortel Rights Plan” means the shareholder rights plan adopted by New Nortel pursuant to the New Nortel Rights Plan Agreement.

“New Nortel Rights Plan Agreement” means the shareholder rights plan agreement made as of March 13, 2000 between New Nortel and Montreal Trust Company of Canada, as rights agent.

“New Nortel Rights Plan Resolution” means the resolution approving the adoption of the New Nortel Rights Plan by New Nortel, the full text of which is set out in Annex C to this Arrangement Circular, to be considered and, if deemed advisable, passed with or without variation by the Nortel Networks Common Shareholders at the Nortel Networks Meeting.

“New Nortel Stock Options” means the options to purchase New Nortel Common Shares resulting from the assumption by New Nortel pursuant to the Arrangement of the Nortel Networks Options outstanding immediately prior to the Effective Date.

“New Nortel Stock Split” means the subdivision on a two-for-one basis of New Nortel Common Shares to occur as part of the Arrangement.

“New Nortel Subco” means 3721621 Canada Inc., a wholly-owned subsidiary of New Nortel governed by the CBCA.

“Nortel Networks” means Nortel Networks Corporation, a corporation governed by the CBCA.

“Nortel Networks Arrangement Resolution” means the special resolution approving the Arrangement and related matters, the full text of which is set out in Annex B to this Arrangement Circular, to be considered and, if

deemed advisable, passed with or without variation by the Nortel Networks Common Shareholders at the Nortel Networks Meeting.

“Nortel Networks Board” means the board of directors of Nortel Networks.

“Nortel Networks Common Shareholders” means the holders of Nortel Networks Common Shares.

“Nortel Networks Common Shares” means the common shares of Nortel Networks.

“Nortel Networks Meeting” means the annual and special meeting of the holders of Nortel Networks Common Shares to be held on April 27, 2000 to consider, among other things, the Nortel Networks Arrangement Resolution and the New Nortel Rights Plan Resolution, and any adjournments or postponements thereof.

“Nortel Networks Option” means an option exercisable for Nortel Networks Common Shares granted or assumed by Nortel Networks under one of the Nortel Networks Plans.

“Nortel Networks Plans” means the stock option and stock purchase plans and agreements of Nortel Networks or an affiliate of Nortel Networks that involve the issuance of Nortel Networks Common Shares from treasury and that are listed in subsection 1.1(nn) of the Plan of Arrangement.

“Nortel Networks Preferred Shares” means the preferred shares of Nortel Networks.

“Nortel Networks Public Shareholders” means the holders of Nortel Networks Common Shares other than BCE and its affiliates.

“Nortel Networks Series 4 Exchange Right” means the right attached to a Nortel Networks Series 4 Share to exchange such share for Nortel Networks Common Shares in certain circumstances.

“Nortel Networks Series 4 Shares” means the Cumulative Redeemable Class A Preferred Shares Series 4 of Nortel Networks.

“Nortel Networks Series 5 Shares” means the Cumulative Redeemable Class A Preferred Shares Series 5 of Nortel Networks.

“Nortel Networks Series 7 Shares” means the Non-cumulative Redeemable Class A Preferred Shares Series 7 of Nortel Networks.

“Nortel Networks 2000 Stock Option Plan” means the Nortel Networks Corporation 2000 Stock Option Plan described in the Management Circular of Nortel Networks.

“NYSE” means the New York Stock Exchange, Inc.

“Plan of Arrangement” means the plan of arrangement set out as Appendix I to the Arrangement Agreement, as the same may be amended or varied from time to time.

“Record Date” means the fourth trading day on the TSE following the Effective Date or such other date as the Nortel Networks Board and the BCE Board may select.

“Retained Nortel Networks Plans” means the stock purchase plans and stock-based plans of Nortel Networks or an affiliate of Nortel Networks which involve the delivery to plan participants of either Nortel Networks Common Shares purchased on the open market or a benefit based on the value or market trading price of a Nortel Networks Common Share and which are listed in subsection 1.1(tt) of the Plan of Arrangement.

“RBC DS” means RBC Dominion Securities Inc., financial advisor to Nortel Networks.

“Stockco” means 3056074 Canada Inc., a wholly-owned subsidiary of BCE governed by the CBCA.

“Stockco/BCE Options” means the options to acquire Stockco Common Shares granted pursuant to the Arrangement to the BCE Optionholders.

“Stockco Common Shares” means the common shares of Stockco.

“Stockco Preferred Shares” means the non-voting redeemable retractable preferred shares of Stockco to be created in contemplation of the Arrangement.

“Tax Act” means the *Income Tax Act* (Canada), as amended.

“Tax Rulings” means the Canadian Federal Tax Ruling and the advance income tax rulings and opinions from the Ministère du Revenu (Québec) dated March 10, 2000 confirming the income tax consequences of certain aspects of the Arrangement.

“Teleglobe” means Teleglobe Inc., a corporation governed by the CBCA.

“Teleglobe Acquisition” means the proposed acquisition by BCE of Teleglobe to be carried out pursuant to the Teleglobe Acquisition Agreement.

“Teleglobe Acquisition Agreement” means the agreement dated February 15, 2000 between BCE and Teleglobe pursuant to which BCE agreed to acquire all of the Teleglobe Common Shares it does not already own.

“Teleglobe Common Shares” means the common shares of Teleglobe.

“TSE” means The Toronto Stock Exchange.

“US\$” means the lawful currency of the United States of America.

“U.S. Exchange Act” means the United States *Securities Exchange Act of 1934*, as amended.

“U.S. Securities Act” means the United States *Securities Act of 1933*, as amended.

The following summarizes certain information contained elsewhere in this Arrangement Circular. This summary is qualified in its entirety by the more detailed information contained in this Arrangement Circular, in the attached Annexes and in the document incorporated herein by reference. BCE Common Shareholders and Nortel Networks Common Shareholders are urged to read this Arrangement Circular, the attached Annexes and the document incorporated herein by reference carefully and in their entirety.

QUESTIONS AND ANSWERS

The following questions and answers have been compiled from questions frequently asked of the investor relations departments of both BCE and Nortel Networks since the proposed Arrangement was first publicly announced on January 26, 2000:

1. What do I need to do now?

Vote your BCE Common Shares or your Nortel Networks Common Shares as described in this Arrangement Circular and the Management Circulars and the proxy form included therein so that your shares may be represented at the BCE Meeting or at the Nortel Networks Meeting, as applicable. It is not necessary for you to attend a meeting to vote your shares if you complete, sign and return the proxy form, although you are welcome to attend.

2. What are BCE Common Shareholders being asked to vote on?

BCE Common Shareholders are being asked to approve a corporate transaction under the CBCA known as an arrangement, pursuant to which, if approved, BCE will indirectly distribute to its common shareholders an approximate 36% interest in the Nortel Networks Common Shares or just under 95% of BCE's holdings of Nortel Networks Common Shares. Pursuant to the Plan of Arrangement, BCE Common Shareholders would retain their BCE Common Shares and receive approximately 0.78 of a New Nortel Common Share for each BCE Common Share held. Because New Nortel Common Shares will be subdivided on a two-for-one basis as part of the Arrangement, on a post-subdivision basis there will be distributed approximately 1.56 New Nortel Common Shares for each BCE Common Share.

3. What are Nortel Networks Common Shareholders being asked to vote on?

Nortel Networks Common Shareholders are also being asked to approve the Arrangement because they also are affected by it. Pursuant to the Plan of Arrangement, Nortel Networks Common Shareholders will exchange their existing Nortel Networks Common Shares, on a share-for-share basis, for New Nortel Common Shares. New Nortel is the same company whose common shares BCE is distributing to the BCE Common Shareholders. Because the New Nortel Common Shares will be subdivided on a two-for-one basis as part of the Arrangement, on a post New Nortel Stock Split basis, Nortel Networks Public Shareholders will also receive one New Nortel Common Share, in addition to the New Nortel Common Share received on the share-for-share exchange, for each Nortel Networks Common Share held. All of the Nortel Networks Common Shares will be owned by New Nortel. The New Nortel Common Shareholders following the Arrangement will be the Nortel Networks Public Shareholders, the BCE Common Shareholders and BCE. The Nortel Networks Public Shareholders will not be diluted as a result of the Arrangement.

Nortel Networks Common Shareholders are also being asked separately to approve a shareholder rights plan for New Nortel.

4. What will be the impact of the Arrangement on the market price of my BCE Common Shares?

Firstly, BCE expects that the market price of a BCE Common Share would be reduced to reflect the value of the distribution to BCE Common Shareholders of a direct interest in New Nortel. This reduction is expected to occur because such holder would hold two separate freely tradeable securities: a BCE Common Share, which would continue to represent an interest in BCE's non-Nortel Networks assets and approximately 2% of New Nortel; and a New Nortel Common Share, which would represent a direct interest in New Nortel.

Secondly, because the holding company discount attributed to BCE's interest in Nortel Networks would be eliminated by the Arrangement, BCE expects that the market would be in a position to better reflect the value of BCE's non-Nortel Networks assets. Accordingly, BCE expects the aggregate of the market price of a BCE Common Share and the market price of a New Nortel Common Share distributed to the BCE Common Shareholders under the Arrangement to be significantly higher than the market price of a BCE Common Share prior to January 26, 2000, the date the proposed Arrangement was first publicly announced.

5. What is a plan of arrangement?

A plan of arrangement is a statutory procedure under Canadian corporate law which, upon shareholder and court approvals being obtained, permits companies to engage in complex restructurings. A plan of arrangement is frequently used where a corporate transaction has many steps that must occur in a particular sequence that would not be practicable to organize under statutory provisions lacking the arrangement provision's flexibility.

6. What is a shareholder rights plan?

A shareholder rights plan is a mechanism used by many public companies to aid the board of directors in its efforts to ensure fair treatment of all shareholders in connection with an unsolicited offer to acquire control of the company. The fundamental purpose of a shareholder rights plan of a Canadian company is to give the board and the shareholders more time to deal with an unsolicited take-over bid than is provided by the minimum periods set by Canadian take-over bid legislation. The board can use this additional time to consider the bid and explore and develop alternatives for maximizing shareholder value. A shareholder rights plan does this by confronting a bidder with a potentially highly dilutive share issuance if the bidder proceeds with a take-over bid that does not satisfy certain minimum standards established by the shareholders rights plan designed to provide fairness to shareholders. Alternatively, the bidder can avoid dilution by negotiating with the board, which is obliged to act in the best interests of the company. The purpose of a shareholder rights plan is not to discourage take-over bids but to provide time to develop the best transaction for shareholders that may be available.

7. How was the number 0.78 of a New Nortel Common Share derived?

The number represents an approximation of the fraction of which the numerator is the number of Nortel Networks Common Shares owned immediately prior to the Effective Date by BCE and its subsidiaries (expected to be 539,854,492) minus the number of Nortel Networks Common Shares not being distributed by BCE to the BCE Common Shareholders (expected to be 30,000,000) and the denominator is the aggregate of the number of BCE Common Shares outstanding immediately before the Effective Time (expected to be 644,115,529), less any BCE Common Shares held by Dissenting BCE Shareholders, plus the number of BCE Common Shares issuable pursuant to BCE Existing Options (expected to be 5,301,899). The number, when determined immediately prior to the Effective Date, will not be less than 0.78 (prior to giving effect to the New Nortel Stock Split).

8. When is the Arrangement likely to occur?

It is presently anticipated that, if approved, the Arrangement will become effective on or about May 1, 2000.

9. When must I be a BCE Common Shareholder in order to receive certificates representing New Nortel Common Shares?

The close of business on the Record Date (expected to be May 5, 2000).

10. When must I be a Nortel Networks Common Shareholder in order to receive certificates representing the New Nortel Common Shares created by the New Nortel Stock Split?

The close of business on the Record Date (expected to be May 5, 2000).

11. What will I have to do as a shareholder to receive my share certificates?

Shareholders will not be required to send in certificates currently representing BCE Common Shares or Nortel Networks Common Shares and these certificates should be retained.

For a BCE Common Shareholder, the certificates that today represent BCE Common Shares will continue to represent the same number of BCE Common Shares after the Arrangement. In addition, BCE Common Shareholders of record at the close of business on the Record Date will be entitled to receive certificates representing New Nortel Common Shares. These certificates will represent the post-subdivision number of New Nortel Common Shares (*i.e.*, approximately 1.56 New Nortel Common Shares per BCE Common Share held). Fractional New Nortel Common Shares will not be distributed but will be aggregated and sold in the market by Montreal Trust Company of Canada, which will distribute the proceeds to holders pro rata based on their fractional entitlements.

Share certificates representing Nortel Networks Common Shares today will continue to represent the same number of New Nortel Common Shares. In addition, because of the New Nortel Stock Split, all New Nortel Common

Shareholders of record at the close of business on the Record Date will be entitled to receive additional certificates representing the additional New Nortel Common Shares held by them as a result of the New Nortel Stock Split.

12. When will I receive my New Nortel share certificates?

Assuming the Arrangement becomes effective on May 1, 2000, share certificates representing New Nortel Common Shares to which BCE Common Shareholders and Nortel Networks Common Shareholders are entitled are expected to be mailed by ordinary prepaid post commencing on or about May 8, 2000.

13. What approvals are required for the Arrangement to become effective?

The principal approval required (in addition to shareholder approvals) will be that of the Superior Court of Justice of Ontario, which, under the CBCA, must approve the fairness of the Arrangement. This "fairness hearing" is scheduled to be held at 4:00 p.m. on April 28, 2000, provided that the BCE Common Shareholders and Nortel Networks Common Shareholders approve the Arrangement, in each case by a two-thirds majority of those present or represented by proxy and voting at the shareholder meetings of the respective companies. In addition, certain regulatory orders and approvals, including those of securities regulatory authorities, must be obtained in order to consummate the Arrangement.

The consummation of the Arrangement is subject to other customary conditions.

The Notice of Application for the hearing in connection with the approval of the Arrangement by the Superior Court of Justice of Ontario is contained in Annex D and should be read for more detailed information in respect of the hearing.

14. What is the tax impact of the Arrangement?

A Canadian resident BCE Common Shareholder that holds BCE Common Shares as capital property, other than a Dissenting BCE Shareholder, generally will realize neither a capital gain nor a capital loss as a result of the Arrangement, except to the extent such holder realizes a capital gain or a capital loss on the sale by the agent of a fractional New Nortel Common Share allocated to such holder. A holder's adjusted cost base of his or her BCE Common Shares will be divided between the BCE Common Shares retained and the New Nortel Common Shares received by such holder on the Arrangement. As the final proportion cannot be determined prior to the Effective Date, BCE will advise holders in writing shortly after the Effective Date as to its views on such division of adjusted cost base. In order to comply with the requirements of the Tax Act, such allocation will, in general terms, reflect the fair market value of the Nortel Networks Common Shares indirectly transferred to New Nortel by BCE relative to the fair market value of the net assets of BCE immediately prior to the Arrangement. Therefore, such allocation may well not be reflective of the relative trading prices of the BCE Common Shares and the New Nortel Common Shares after the Arrangement.

A Canadian resident Nortel Networks Public Shareholder that holds Nortel Networks Common Shares as capital property, other than a Dissenting Nortel Networks Shareholder, generally will realize neither a capital gain nor a capital loss as a result of the Arrangement.

For a BCE Common Shareholder that is a United States taxpayer, the receipt of New Nortel Common Shares will be a taxable distribution for United States federal income tax purposes, resulting in a taxable dividend approximately equal to the fair market value of the New Nortel Common Shares received. United States holders, in particular, are urged to consult their own tax advisors.

A Nortel Networks Common Shareholder that is a United States taxpayer and holds Nortel Networks Common Shares as capital assets, other than a Dissenting Nortel Networks Shareholder or a shareholder subject to special rules, will generally recognize no gain or loss as a result of the Arrangement.

15. What happens to the preferred shareholders of BCE and Nortel Networks?

BCE's preferred shareholders will continue to hold identical BCE Preferred Shares. Nortel Networks' preferred shareholders will continue to hold their existing Nortel Networks Preferred Shares.

16. When will I be able to trade my BCE Common Shares and New Nortel Common Shares on the Toronto and New York stock exchanges?

It is expected that trading in BCE Common Shares ex-distribution of the New Nortel Common Shares and trading in New Nortel Common Shares on a post-subdivision basis will commence on a “when issued” basis on both the TSE and the NYSE on the Effective Date. If the Effective Date is May 1, 2000, it is expected that the BCE Common Shares ex-distribution will begin trading on May 3, 2000 for regular three trading day settlement on the TSE and will begin trading “regular way” on May 9, 2000 on the NYSE and that the New Nortel Common Shares on a post New Nortel Stock Split basis will begin trading on May 3, 2000 for regular three trading day settlement on the TSE and will begin trading “regular way” on May 9, 2000 on the NYSE.

17. What will the trading symbols of New Nortel, Nortel Networks and BCE be after the Arrangement on the Toronto and New York stock exchanges?

The trading symbols for the BCE Common Shares and BCE Preferred Shares are not affected by the Arrangement.

The New Nortel Common Share and Nortel Networks Preferred Share trading symbols will be as follows:

	<u>TSE</u>	<u>NYSE</u>
New Nortel Common Shares	NT	NT
Nortel Networks Series 5 Shares	NTL.PR.F ⁽¹⁾	—
Nortel Networks Series 7 Shares	NTL.PR.G ⁽¹⁾	—

(1) Effective May 3, 2000.

Nortel Networks Series 4 Shares will continue to trade on the Canadian Venture Exchange.

18. What will New Nortel be called on completion of the Arrangement?

New Nortel will be renamed *Nortel Networks Corporation* and, in French, *Corporation Nortel Networks*. The existing Nortel Networks Corporation will change its name to *Nortel Networks Limited* and, in French, *Corporation Nortel Networks Limitée*.

OTHER SUMMARY INFORMATION

Background to the Transaction

BCE is Canada’s largest communications company. Nortel Networks is a leading global supplier of networking solutions and services that support voice, data and video transmission over wireless and wireline technologies.

BCE

Although Nortel Networks was founded as a wholly-owned subsidiary of BCE, over the years Nortel Networks has grown increasingly independent from BCE. As of February 29, 2000, BCE owned approximately 38% of the outstanding Nortel Networks Common Shares. Nortel Networks’ management is totally independent of BCE and only four of its 12 directors are also directors of BCE. BCE believes that the separation of Nortel Networks from BCE will benefit BCE shareholders, primarily by allowing the market to value more accurately BCE’s non-Nortel Networks assets. BCE also believes that Nortel Networks and the Nortel Networks Public Shareholders will benefit from the elimination of the perceived market “overhang” of BCE’s large shareholding in Nortel Networks.

During 1999 and in January 2000, BCE management and the BCE Board considered alternatives for distributing BCE’s interest in Nortel Networks to the BCE Common Shareholders. On January 26, 2000, the proposed Arrangement was announced. The BCE Board considers the Arrangement to be the best available alternative for enhancing shareholder value in both the short and long-terms. The principal reason for this conclusion is the fact that in recent years BCE Common Shares have been trading at a consistently increasing discount to the net asset value of BCE’s assets. The distribution of approximately 95% of BCE’s ownership interest in Nortel Networks should enable the market to more accurately value BCE’s assets in the communications sector and should enable BCE to more effectively

pursue its strategic objectives in that sector. The BCE Board was concerned about its ability to carry out the distribution of the Nortel Networks interest on a basis that would not be taxable to BCE or its shareholders. The Arrangement accommodates that objective to the maximum extent practicable.

BCE has received a fairness opinion from Morgan Stanley (which is subject to matters set forth therein) to the effect that the consideration to be received in the Arrangement is fair from a financial point of view to the BCE Common Shareholders. BCE has also received an opinion from Morgan Stanley (which is subject to matters set forth therein) that the Arrangement would not have a material impact from a financial point of view on holders of BCE Preferred Shares.

The BCE Board has unanimously approved the Arrangement, the terms of the Arrangement Agreement and the transactions contemplated thereby and unanimously recommends that the BCE Common Shareholders vote FOR the BCE Arrangement Resolution.

Nortel Networks

The original proposal made by senior management of BCE to Nortel Networks' senior management was that BCE would distribute to the BCE Common Shareholders common shares of a separate holding company that would in turn hold BCE's interest in Nortel Networks. The initial BCE proposal raised a number of concerns for Nortel Networks, primarily because of the holding company structure, the corporate governance issues which would have to be addressed, the potential negative impact that the holding company structure would have on the market price of Nortel Networks Common Shares and the fact that the holding company structure would not eliminate the market "overhang" of a large block of stock in Nortel Networks. Accordingly, Nortel Networks and BCE agreed to work together to identify a superior transaction structure.

Nortel Networks appointed a special committee of the Nortel Networks Board, consisting exclusively of non-management directors unaffiliated with BCE. The special committee appointed RBC DS as its financial advisor. The special committee determined to recommend approval of the Arrangement to the Nortel Networks Board. The Arrangement is expected to produce a superior result for the Nortel Networks Public Shareholders, when compared to the initial BCE proposal, which BCE could have implemented without Nortel Networks' involvement.

RBC DS has provided an opinion to the Nortel Networks Board and the special committee to the effect that, from a financial point of view, the Arrangement is fair to the Nortel Networks Public Shareholders.

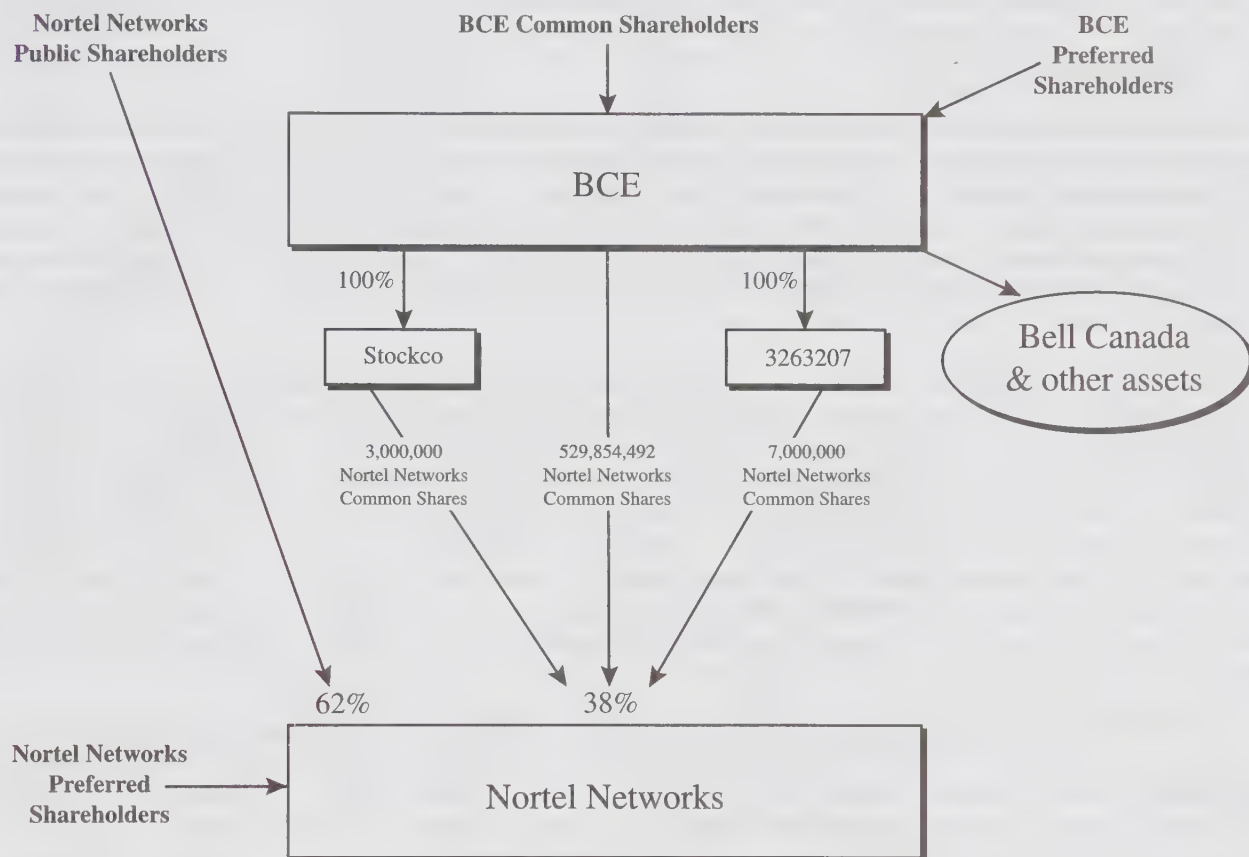
The Nortel Networks Board (other than those directors who are also directors of BCE and who, therefore, abstained from voting) unanimously approved the Arrangement, the terms of the Arrangement Agreement and the transactions contemplated thereby and unanimously recommends that the Nortel Networks Common Shareholders vote FOR the Nortel Networks Arrangement Resolution.

Details of the Arrangement

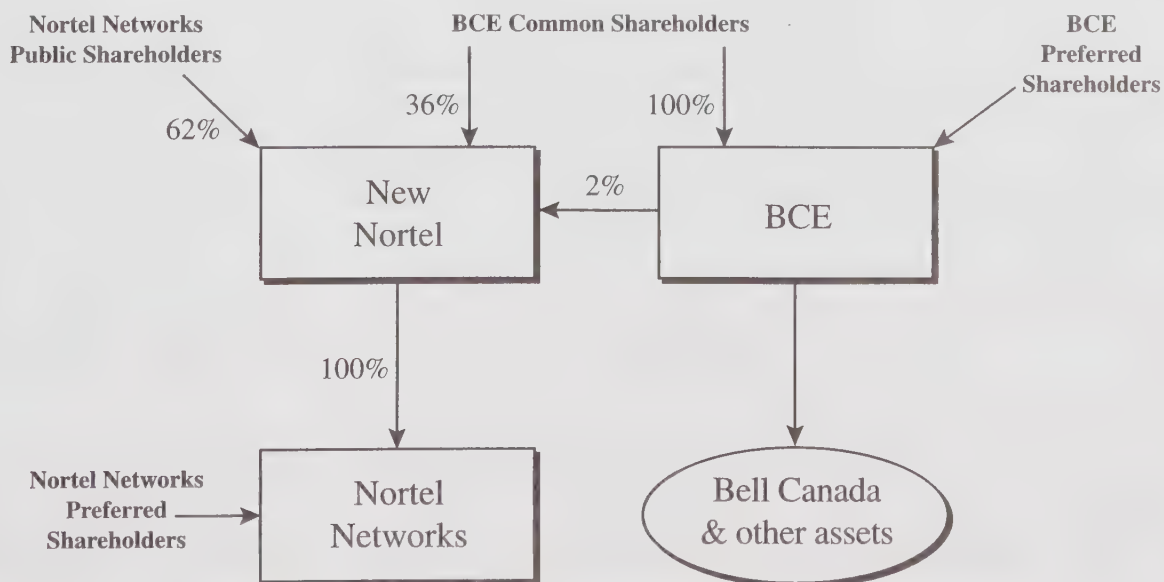
A complex series of transactions known as a "butterfly" reorganization to be undertaken by BCE will result in each BCE Common Shareholder holding, in addition to a BCE Common Share, approximately 0.78 of a New Nortel Common Share for each BCE Common Share held. In aggregate, this will effectively result in BCE distributing to BCE Common Shareholders an approximately 36% interest in Nortel Networks (approximately 95% of BCE's total existing Nortel Networks interest). As part of the Arrangement, New Nortel will acquire from Nortel Networks Public Shareholders their Nortel Networks Common Shares in exchange for New Nortel Common Shares on a share-for-share basis. After completion of the Arrangement, Nortel Networks Public Shareholders will own approximately 62% of New Nortel (which will have been renamed "Nortel Networks Corporation"), while approximately 36% will be owned by the BCE Common Shareholders and the remaining approximately 2% will be owned by BCE.

The New Nortel Common Shares will be subdivided on a two-for-one basis as part of the Arrangement and so, on a subdivided basis, BCE Common Shareholders will receive approximately 1.56 New Nortel Common Shares for each BCE Common Share held and Nortel Networks Common Shareholders will own two New Nortel Common Shares for each Nortel Networks Common Share previously held.

The following diagram sets forth the organizational structure of BCE and Nortel Networks immediately before giving effect to the Arrangement and related transactions.



The following diagram sets forth the organizational structure of BCE and New Nortel immediately after giving effect to the Arrangement and related transactions (assuming exercise of all New Nortel/BCE Options).



Dissenting Shareholders' Rights

BCE Common Shareholders and Nortel Networks Common Shareholders who wish to exercise dissent rights in respect of the Arrangement should refer to "Dissenting Shareholders' Rights".

New Nortel Rights Plan

New Nortel has adopted the New Nortel Rights Plan and, subject to the implementation of the Arrangement and obtaining all necessary regulatory and shareholder approvals, will issue Rights to New Nortel Common Shareholders of record at the close of business on the Record Date, after giving effect to the New Nortel Stock Split. To comply with the TSE's requirements, the New Nortel Rights Plan Resolution must be approved by the Nortel Networks Common Shareholders at the Nortel Networks Meeting. BCE has advised Nortel Networks and New Nortel that it intends to cause all of the Nortel Networks Common Shares held by BCE and its affiliates to be voted in favour of the New Nortel Rights Plan Resolution.

The fundamental objectives of the New Nortel Rights Plan are to provide adequate time for the New Nortel Board and New Nortel shareholders to assess an unsolicited take-over bid for New Nortel, to provide the New Nortel Board with sufficient time to explore and develop alternatives for maximizing shareholder value if such bid is made and to provide New Nortel shareholders with an equal opportunity to participate in such a bid. The New Nortel Rights Plan encourages a potential acquiror to proceed either by way of a "Permitted Bid" which satisfies certain minimum standards designed to promote fairness, or with the concurrence of the New Nortel Board. If a take-over bid fails to satisfy such minimum standards and the New Nortel Rights Plan is not waived by the New Nortel Board, the Plan provides that New Nortel Common Shareholders, other than the acquiror, will be able to purchase additional New Nortel Common Shares at a 50% discount to market price, thus exposing the acquiror to substantial dilution of its holdings.

The Nortel Networks Board believes that the protection to New Nortel shareholders provided by the New Nortel Rights Plan is important since the wide distribution of New Nortel Common Shares pursuant to the Arrangement Agreement may create increased opportunities for coercive or opportunistic take-over bids. The Nortel Networks Board is not aware of any pending or threatened take-over bid for either New Nortel or Nortel Networks.

The Nortel Networks Board unanimously recommends that the Nortel Networks Common Shareholders vote FOR the New Nortel Rights Plan Resolution.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS AND RISK FACTORS

Certain statements included or incorporated by reference in this Arrangement Circular, which describe BCE's, Nortel Networks' and New Nortel's intentions, expectations or predictions, are "forward-looking statements" within the meaning of the "safe harbour" provisions of the U.S. *Private Securities Litigation Reform Act of 1995* and are subject to important risks and uncertainties. All statements, other than statements of historical fact, included in this Arrangement Circular, address activities, events or developments that BCE, Nortel Networks or New Nortel expects or anticipates will or may occur in the future, including such things as the positive impact that BCE anticipates the Arrangement will have on the market value of BCE Common Shares; the benefits expected to be provided by the Arrangement to Nortel Networks and the Nortel Networks Public Shareholders as a result of the elimination of the perceived market "overhang" of BCE's large shareholding in Nortel Networks; the expected Record Date; BCE's intention to provide to Teleglobe up to \$1.5 billion in financing to support the current five year infrastructure program of GlobeSystem; the expected closing date of the acquisitions of Teleglobe and CTV; the anticipated growth of BCE, New Nortel and their respective subsidiaries including Internet-related growth; the existence of growth opportunities presented by the new Internet-economy and converging technologies; the size and ranking of BCE and New Nortel as Canadian corporations subsequent to the Arrangement; the business strategies and measures to implement those strategies; the competitive strengths, goals and expansion of BCE, Nortel Networks, New Nortel and their respective subsidiaries' businesses and operations; references to future success; and other such matters are forward-looking statements. When used in this Arrangement Circular, the words "estimate", "project", "anticipate", "expect", "intend", "believe" and similar expressions are intended to identify forward-looking statements.

These forward-looking statements are based on certain assumptions and analyses made by BCE and Nortel Networks, respectively, in light of their experiences and their perceptions of historical trends, current conditions and expected future developments, as well as other factors they believe are appropriate in the circumstances. However, whether actual future results and developments will conform with their expectations and predictions is subject to a number of risks and uncertainties, including the significant considerations discussed in this Arrangement Circular, any of which could cause actual results to differ materially from the forward-looking statements.

With respect to BCE, these risks and uncertainties include: the risks that the Arrangement, the Teleglobe Acquisition or the CTV bid will not be completed due, in particular, to the non-approval by the relevant courts or regulatory authorities or by any interested party whose approval is required with respect to the Arrangement, the Teleglobe Acquisition or the CTV bid or the failure to meet any of the other closing conditions of any of the foregoing transactions; the failure of the capital markets to recognize, in whole or in part, the value of BCE's non-Nortel Networks assets; BCE's stock price volatility; the Internet-economy growing at a slower pace than anticipated; risks of new, or changes to existing, laws or regulations in jurisdictions where the BCE group of companies operate and, in particular, changes in laws or regulations governing the Internet and Internet commerce; increasing competition and, more specifically, the potential significant impact on BCE's growth prospects resulting from competitors' reactions to BCE's strategies especially with the advent of competition in the Canadian local market; the availability and cost of capital and the significant level of expenditures required to maintain quality of service; the availability of, and ability to retain, key personnel; the fact that there can be no assurance that the BCE group of companies will be able to grow through acquisitions; customer demand for telephone access lines, optional services, wireless services, basic long distance services and new and emerging services, including e-commerce applications and entertainment services; the inability to further identify, develop and achieve commercial success for new products, services and technologies; the impact of rapid technological and market change; general industry and market conditions and growth rates; international growth and global economic conditions, particularly in emerging markets and including interest rate and currency exchange rate fluctuations; unanticipated impact of Year 2000 issues; the impact of consolidations in the telecommunications industry; the opportunities (or lack thereof) that may be presented to and pursued by the BCE group of companies; the failure by BCE to achieve its strategic objectives; and other factors.

With respect to Nortel Networks and New Nortel, these risks and uncertainties include, but are not limited to: acquisitions, rapid technological change and voice and data convergence; competition; international growth, foreign exchange and interest rates; general industry and market conditions and growth rates; Year 2000 compliance; consolidations in the telecommunications industry; uncertainties of the Internet; stock price volatility; recruitment and retention of qualified employees; increases in customer financing; price and product competition; new product

development; and other factors. These and other risk factors are identified in Nortel Networks' Annual Report on Form 10-K which is incorporated by reference herein.

Many of these factors are beyond the control of BCE, Nortel Networks, New Nortel and their respective subsidiaries. Consequently, all of the forward-looking statements made in this Arrangement Circular or the documents incorporated by reference herein are qualified by these cautionary statements and there can be no assurance that the actual results or developments anticipated by BCE, Nortel Networks or New Nortel will be realized.

THE COMPANIES

Description of BCE's Business

BCE is Canada's largest communications company. Through its operations in communications services, BCE provides residential and business customers in Canada with wireline and wireless communications products and applications, satellite communications and direct-to-home television services, systems integration expertise, electronic commerce solutions, Internet access and high-speed data services and directories. Abroad, through Bell Canada International Inc.'s investee companies, BCE provides communications services to approximately 5.5 million customers in Asia and Latin America. BCE also has an extensive international presence through Teleglobe, an international telecommunications carrier.

BCE's Business After the Arrangement

While Bell Canada remains at the centre of BCE in providing a full range of domestic and international integrated communications services to customers, via wireline, wireless or e-channels, BCE intends to transform itself into a communications leader in the Internet economy, active not only in enabling people to communicate but in providing content flowing across Canada and around the world.

BCE's future business expansion is expected to include the following: leveraging its broadband networks of Bell Nexxia and Teleglobe to increase Internet connectivity; harnessing the Sympatico-Lycos and Bell ActiMedia portfolios as well as BCE Media Inc.'s activities (and if the acquisition of CTV is successful, the CTV portfolio) to raise content for its Internet and entertainment businesses; and extending its e-commerce and related businesses.

Acquisition of Teleglobe

On February 15, 2000, BCE entered into the Teleglobe Acquisition Agreement to acquire the 199.4 million outstanding Teleglobe Common Shares not owned by BCE or its affiliates for approximately \$9.65 billion in BCE Common Shares. BCE, through Bell Canada, currently owns approximately 23% of the outstanding Teleglobe Common Shares. Contemporaneously with entering into the Teleglobe Acquisition Agreement, BCE also entered into agreements with Kenny Troutt and related parties (the "Troutt Group"), which own approximately 18% of the outstanding Teleglobe Common Shares, and with Charles Sirois and related parties (the "Sirois Group"), which own approximately 8% of the outstanding Teleglobe Common Shares, pursuant to which the Troutt Group and the Sirois Group irrevocably agreed to accept the Teleglobe Acquisition proposal. Teleglobe's board of directors has determined that the Teleglobe Acquisition is fair from a financial point of view to the holders of Teleglobe Common Shares and is in the best interests of Teleglobe and will recommend that Teleglobe shareholders accept the Teleglobe Acquisition proposal.

Teleglobe is a leading global provider of broadband services with a vast data/Internet network that has connections with 750 carriers in more than 100 countries. Teleglobe's customer segments include incumbent and emerging carriers, Internet service providers or ISPs, Internet and other content providers (such as broadcasters), businesses and consumers. These segments are principally served by Teleglobe's subsidiaries, Teleglobe Communications Corporation and Excel Communications, Inc. ("Excel"). Teleglobe also has interests in ORBCOMM, a global mobile satellite data and messaging communications system; up2 Technologies Inc., which provides Internet and electronic commerce solutions primarily for Excel's independent representatives; Look Communications Inc., which provides wireless broadcast distribution and Internet services in Québec and Ontario; and Teleglobe Marine Group, which installs,

maintains and repairs undersea cables. In addition, Teleglobe has announced that it intends to make a US\$5 billion investment over five years in GlobeSystem, a globally integrated Internet, voice, data and video network, which upon completion in 2004 will offer Teleglobe customers direct network access from 160 major cities worldwide to deliver a broad range of advanced competitive services regardless of their technological infrastructure. BCE intends to provide Teleglobe with up to \$1.5 billion in financing to support the current five year infrastructure program of GlobeSystem.

It is not expected that the Teleglobe Acquisition proposal will be mailed to Teleglobe's shareholders until BCE has completed the Arrangement, although the completion of the Teleglobe Acquisition is not conditional upon completion of the Arrangement.

Under the Teleglobe Acquisition proposal, Teleglobe's common shareholders (other than BCE and its affiliates) will receive, for each Teleglobe Common Share held, that portion (the "Teleglobe Share Exchange Ratio") of a BCE Common Share determined as follows:

- (a) in the event the Arrangement is completed prior to completion of the Teleglobe Acquisition, the ratio (rounded to the nearest one-thousandth of a BCE Common Share) obtained by dividing (i) \$48.41 by (ii) the weighted average trading price of the BCE Common Shares on the TSE for the ten trading days ending on the fifth business day immediately preceding the completion of the Teleglobe Acquisition, subject to a minimum of 0.85 of a BCE Common Share per Teleglobe Common Share and a maximum of 0.97 of a BCE Common Share per Teleglobe Common Share; and
- (b) in the event the Teleglobe Acquisition is completed prior to the closing of the Arrangement, 0.3 of a BCE Common Share per Teleglobe Common Share.

Contemporaneously with the entering into of the Teleglobe Acquisition Agreement, the board of directors of Teleglobe appointed Jean Monty, the President and Chief Executive Officer of BCE, as Chairman of the board of directors of Teleglobe. The board of directors of Teleglobe also appointed Paolo Guidi, the current President and Chief Executive Officer of Teleglobe Communications Corporation, and Christina Gold, the current President and Chief Executive Officer of Excel, as Co-chief Executive Officers of Teleglobe.

Completion of the Teleglobe Acquisition is subject to, among other things, customary regulatory approvals in both Canada and the United States, as well as Teleglobe shareholder approval. It is expected that the Teleglobe Acquisition would close as soon as possible after receipt of all required approvals, which BCE expects to receive later this year.

CTV Bid

On February 25, 2000, BCE announced a bid for all of the outstanding shares of CTV, Canada's largest private-sector television broadcasting network, at a price of \$38 per share in cash for a total offer of \$2.3 billion.

On March 13, 2000, BCE announced that it had increased the price per share offered to CTV shareholders to \$38.50 and it had signed support agreements with both CTV and Electrohome Broadcasting Inc. ("EBI"), a major CTV shareholder owning approximately 11.6% of the outstanding shares of CTV on a fully-diluted basis. BCE also announced a bid to purchase all of the voting and non-voting shares of EBI at a price of \$32.17 per share in cash for a total offer of approximately \$270 million (which is included in the \$2.3 billion referred to above). The majority shareholders of EBI, John Pollock, Barbara Steele and related parties, who collectively own 71% of the EBI voting shares and 19% of the EBI non-voting shares, have irrevocably committed to tender all of their EBI shares under the BCE offer.

The purpose of the CTV acquisition is to significantly enhance BCE's consumer strategy of providing its customers with integrated information, communications and entertainment (ICE) services. BCE expects the strength of the CTV brand, its strong programming line-up and its award-winning expertise in the areas of news and sports to position BCE as a leading player in the converging broadcasting and new media industries.

CTV is a national broadcaster with a strong local presence across Canada. The acquisition of CTV should complement BCE's investments in Sympatico and Bell ExpressVu. CTV owns and operates 25 television stations in Ontario, Saskatchewan, Alberta, British Columbia, Nova Scotia and New Brunswick. Of these stations, 18 are affiliates of CTV Television Network, six are CBC affiliate television stations and one, CIVT, Vancouver, is an independent television station. CTV also owns ASN, a satellite-to-cable programming undertaking, and has ownership interests in

and manages four specialty cable television services, The Comedy Network, Outdoor Life Network, CTV Newsnet and CTV Sportsnet. These specialty channels derive revenue both from advertising and from subscription payments set at a monthly rate per subscriber as determined by contract with the distributor of the service. CTV also has a 12% interest in History Television Inc., and holds a license for an additional specialty service, TalkTV, which is scheduled to launch in September 2000. CTV also has a controlling interest in Sports Specials/Pay-Per-View for digital and Direct-to-Home systems.

CTV acquired, on March 5, 1999, a 68.46% interest in NetStar Communications Inc. ("NetStar"), which in turn owns The Sports Network Inc., Le Réseau des sports (RDS) Inc. and an 80% indirect interest in 2953285 Canada Inc., which carries on business under the name "Discovery Channel". NetStar owns a 24.95% interest in Viewer's Choice Canada Inc. Through its indirect wholly-owned subsidiary Dome Productions Inc., NetStar operates one of the largest mobile production facilities in Canada. CTV's investment in NetStar is held in trust pending regulatory approval.

In addition to customary conditions, the offer for CTV is also contingent on:

- more than 50 per cent of the common shares of CTV (on a fully-diluted basis) being tendered (including in the event that BCE acquires a majority of the voting shares of EBI, the 11.6% interest in CTV shares held by EBI);
- the Canadian Radio-television and Telecommunications Commission (the "CRTC") approving the terms of trust arrangements, satisfactory to BCE, whereby CTV's common shares can be taken up and paid for pursuant to the offer, pending CRTC approval of the transaction;
- BCE and CTV having entered into co-operation and business conduct arrangements and an Internet distribution agreement on commercially reasonable terms and having a 10-year duration, under which current and future programming of CTV and its subsidiaries will be available on the Internet only through the Internet portal site operated by Sympatico-Lycos or an affiliate of BCE;
- CRTC approval of the NetStar acquisition on a basis satisfactory to BCE; and
- the shareholder rights plan of CTV having been waived by the board of directors of CTV.

The offer for EBI is contingent on, among other things, more than 66 $\frac{2}{3}$ per cent of the voting shares of EBI and more than 66 $\frac{2}{3}$ per cent of the non-voting shares of EBI (on a fully-diluted basis) being tendered.

BCE mailed its bid circular to the shareholders of CTV and EBI on March 14, 2000 and currently expects its offers to close by mid-April, 2000.

Description of Nortel Networks' Business

Nortel Networks is a leading global supplier of networking solutions and services that support voice, data, and video transmission over wireless and wireline technologies. Nortel Networks is focused on building the infrastructure service enabling solutions and applications for the new, high-performance Internet. Nortel Networks' business consists of the design, development, assembly, manufacture, marketing, sale, financing, installation, servicing and support of networking solutions and services for Service Provider and Carrier customers, and Enterprise customers. Nortel Networks' solutions and services are used by customers to support the Internet and other public and private voice, data, and video networks.

Nortel Networks carries on business in two operating segments: the Service Provider and Carrier segment and the Enterprise segment.

Nortel Networks offers a broad portfolio of products and services to its Service Provider and Carrier customers, including solutions for existing networks, solutions to evolve legacy infrastructures to packet-based infrastructures, and solutions for new networks. This broad portfolio of solutions assists service providers and carriers in developing a common service architecture and feature set to meet their application needs and drive competitive and revenue advantages. Nortel Networks is a leading global provider of Internet Protocol ("IP"), high-speed access, long-distance, optical and wireless networking products and services. Service Provider and Carrier segment customers include

traditional communications carriers such as incumbent local exchange carriers; postal, telegraph, and telephone authorities; independent operating companies; interexchange carriers; emerging service providers, such as competitive local exchange carriers; alternate operators; Internet Service Providers; cable television companies; and application service providers.

Nortel Networks' products and technologies are designed to offer Enterprise customers opportunities to build competitive advantage from high-performance applications and networks. Nortel Networks offers a broad portfolio of eBusiness products and services to its Enterprise customers, including data networking, telephony communications solutions, communications applications, and related services for business networks. These product solutions link people to critical information resources at the desktop, across corporate enterprise networks, or over the Internet. Nortel Networks offers open, standards-based technologies, products, services, and support that fulfills the high-performance, availability, and interoperability requirements of a broad spectrum of customers — from large enterprises and their branch offices to small businesses, home offices, and remote users, and from government, education, and utilities industries to finance, healthcare, retail, hospitality, manufacturing, Internet, services, and transportation sectors. Nortel Networks is a leading global provider of IP-based communications solutions for Enterprise customers. Nortel Networks also offers professional telecommunications management and consulting services to governments and enterprises.

At December 31, 1999, Nortel Networks employed approximately 76,700 people: 31,115 in the United States; 23,877 in Canada; 15,450 in Europe; and 6,270 in other countries. In addition, Nortel Networks' proportionate share of the employees of joint ventures at December 31, 1999 was approximately 3,900.

The substantial growth of the Internet and the increased volume of data network traffic is creating revolutionary change in the global communications industry. As a result, entirely new market opportunities are developing, particularly in data networks and wireless networks. Nortel Networks is competing for the emerging opportunities in these networking markets by using its existing networking capabilities and broad portfolio of network solutions and services, by developing new technologies through its ongoing research and development efforts and by establishing an acquisition and alliance strategy to purchase or partner with companies that have new, competitive product offerings and technologies. Nortel Networks' ability to develop or acquire products and services to fulfill the changing needs of its customers and meet new market opportunities, such as the convergence of voice and data networks and wireless and wireline networks, is critical to its future success.

Nortel Networks is committed to meeting these new market opportunities, in part, by working with customers and strategic partners to build a faster, more reliable, high-performance Internet. Nortel Networks is currently addressing the new Internet market opportunities by offering or developing the following: Nortel Networks' high-capacity fiber-optic networking technology and high-speed Internet access solutions that work together to create data and voice networks for service providers and carriers and enterprises that have greater speed, reliability, and capacity (Optical Internet); Nortel Networks' packet telephony solutions for service providers and carriers and enterprises that enable these customers to offer telephony and IP services without the expense of a data overlay network (Internet Telephony); Nortel Networks' emerging solutions for next-generation wireless networks that will provide customers of wireless operators with mobile data and Internet services (Wireless Internet); and IP-enabled applications and services, including e-commerce, unified messaging, web response centers, virtual private networks and virtual private intranets (Internet Services).

Nortel Networks is also committed to meeting the increasing market demand for the delivery of networks that combine voice, data, and video technologies, and wireless and wireline technologies, in a unified manner, allowing the smooth operation of applications using the best technology for each kind of traffic. Nortel Networks is currently addressing this market opportunity by developing, acquiring and combining products and services from a wide range of Nortel Networks' existing, emerging and acquired solutions and technologies. This integration and combination of products and services is designed to enable Nortel Networks to provide Service Provider and Carrier customers and Enterprise customers with end-to-end solutions that meet all of a customer's communications systems needs in an integrated network that blends optical, wireless, wireline, routing, switching, and IP technologies in a seamless manner and delivers service predictability, control, security, and performance (Unified Networks).

THE TRANSACTION

Background to the Transaction

BCE

For much of the past century, Nortel Networks and its predecessor companies played an important role as a supplier for BCE's telecommunication services operations (principally to Bell Canada). Since the 1970's, however, Nortel Networks has grown increasingly independent from BCE while its significance as a key component of BCE's telecommunication services strategy has continued to diminish.

In 1976, BCE's influence over Nortel Networks significantly decreased when Nortel Networks gained autonomy from Bell Canada through the establishment of an independent management structure. In 1994, Nortel Networks' relationship with BCE was further diminished with the termination of Nortel Networks' principal contract to supply Bell Canada. In addition, BCE's relative ownership interest in Nortel Networks has declined significantly over time. On August 31, 1998, Nortel Networks acquired Bay Networks, Inc. and in connection therewith issued approximately 135 million Nortel Networks Common Shares, resulting in a decline in BCE's ownership interest in Nortel Networks from approximately 51% to approximately 41%. As of December 31, 1999, following a series of additional acquisition transactions undertaken by Nortel Networks, BCE's ownership interest in Nortel Networks had declined to approximately 39% (approximately 38% as of February 29, 2000). Accordingly, there is no longer a strong business rationale for BCE to maintain a significant ownership interest in Nortel Networks.

In view of the continuing dilution of BCE's ownership interest in Nortel Networks and the fact that the BCE Common Shares were trading at a significant discount to the net asset value of BCE's assets, BCE started in 1999 to consider the possibility of restructuring BCE to divest its ownership interest in Nortel Networks. BCE believes that the separation of Nortel Networks from BCE will benefit BCE's shareholders primarily by allowing the market to value more accurately BCE's non-Nortel Networks assets. BCE also believes that Nortel Networks and the Nortel Networks Public Shareholders will benefit from the elimination of the perceived market "overhang" of BCE's large shareholding in Nortel Networks.

Review Process

In 1999, BCE retained Morgan Stanley for the purpose of advising BCE on various restructuring alternatives that were available to BCE with respect to its ownership interest in Nortel Networks. In addition to the Arrangement, a number of restructuring alternatives were examined in detail from market, financial, tax and legal perspectives. These included the private or public sale of BCE's ownership interest in Nortel Networks, either directly or indirectly, through various means.

In early October 1999, BCE's President and Chief Executive Officer, Jean Monty, informed Nortel Networks' President and Chief Executive Officer, John Roth, of BCE's intention to pursue a separation of BCE's ownership interest in Nortel Networks and requested that management of both companies meet to discuss the proposed transaction. BCE's senior management met with the senior management of Nortel Networks and informed Nortel Networks that BCE was considering a proposed transaction structure whereby BCE would distribute to the BCE Common Shareholders, on a tax-deferred basis for Canadian shareholders, the shares of a separate publicly traded holding company that would hold BCE's shareholding in Nortel Networks or would be prepared to consider such other structure that would be beneficial to both BCE and Nortel Networks shareholders. Although the separate publicly traded holding company structure proposed by BCE (the "Initial BCE Proposal") was not considered optimal in that the BCE Common Shareholders would not own the interest in Nortel Networks directly, BCE senior management believed that the Initial BCE Proposal could significantly enhance shareholder value for BCE shareholders by reducing the discount attributed to BCE's ownership in Nortel Networks and encouraging the market to better reflect the value of BCE's non-Nortel Networks assets.

The Initial BCE Proposal was also not considered optimal by senior management of Nortel Networks. Accordingly, it was agreed that the respective senior managements and legal and financial advisors of BCE and Nortel Networks would work together to identify a transaction structure that would be beneficial for both companies and their respective shareholders.

At a meeting of the BCE Board held on October 27, 1999, BCE's senior management and Morgan Stanley made a presentation regarding the then current discount at which BCE's Common Shares were trading and the implications of a distribution of BCE's ownership interest in Nortel Networks Common Shares to the BCE Common Shareholders. Although no decision was made by the BCE Board at that time to proceed with the transaction, the BCE Board authorized its senior management to continue discussions with Nortel Networks concerning a possible transaction and to report back to the BCE Board.

The BCE Board also met on November 24, 1999 to obtain an update on the discussions with Nortel Networks.

During the period from October 1999 to January 26, 2000, representatives of BCE and Nortel Networks held numerous discussions concerning the terms of the proposed transaction. The Arrangement is the transaction structure that resulted from the joint efforts of BCE and Nortel Networks.

On January 26, 2000, the BCE Board met to consider the Arrangement. BCE's management made presentations to the BCE Board, which also received from Morgan Stanley a fairness opinion dated January 26, 2000 (which is subject to the matters set forth therein) that the consideration to be received in the Arrangement is fair from a financial point of view to the BCE Common Shareholders and an opinion (which is subject to the matters set forth therein) that the Arrangement would not have a material impact from a financial point of view on holders of BCE Preferred Shares. The BCE Board then approved the proposed transaction, subject to approval by the Nortel Networks Board. On January 26, 2000, following the approval of the Arrangement by the Nortel Networks Board, BCE issued a press release announcing that it had entered into the Arrangement Agreement with Nortel Networks.

On March 13, 2000, the BCE Board met to approve the Management Proxy Circular of BCE, including this Arrangement Circular. At that time Morgan Stanley re-delivered the opinions previously referred to, but dated March 13, 2000. (The fairness opinion is included in full as Annex G to this Arrangement Circular.)

The BCE Board considers the Arrangement to be the best available alternative for enhancing shareholder value both in the short and the long terms and, accordingly, that the Arrangement is in the best interests of BCE and its shareholders. In reaching this conclusion and in making its recommendation, the BCE Board considered and relied upon, among other things, the following factors:

- (a) the significant growth in the price of Nortel Networks Common Shares, when factored into the price of BCE Common Shares, had resulted in a substantial discount in the valuation of BCE's other assets. For example, between October 1998 and October 1999, while the market value of the Nortel Networks investment grew from 50% to 86% of BCE's total market capitalization, the discount between BCE's market capitalization and BCE management's estimates of the net value of its assets grew from 20% to 33%. The distribution of approximately 95% of BCE's ownership interest in Nortel Networks should enable the market to more accurately value BCE's assets which, in turn, should result in a substantial reduction in the discount currently imputed to such assets in the determination of the market price of BCE Common Shares;
- (b) the realignment in the market price of BCE Common Shares should enable BCE to more effectively pursue its strategic objectives in the communications services sector thereby enabling management of BCE to focus on the growth and profitability of BCE's various interests within such sector;
- (c) the realignment in the market price of BCE Common Shares should make BCE Common Shares a more attractive currency for use in funding strategic acquisitions in communications, information, e-commerce and entertainment services;
- (d) the separation of BCE's interest in Nortel Networks from its other assets would result in the BCE Common Shareholders obtaining direct ownership in New Nortel Common Shares, in addition to their BCE Common Shares, thereby enabling the BCE Common Shareholders to make independent investment decisions in respect of their ownership interest in each business;
- (e) the ability of BCE to complete the Arrangement on a tax-deferred basis for BCE and the BCE Common Shareholders. The Arrangement can be completed on a tax-deferred basis for Canadian resident BCE Common Shareholders but under U.S. tax law cannot be implemented on a tax-deferred basis for U.S. resident BCE Common Shareholders;

- (f) BCE had received confirmation from the rating agencies that rate the BCE Preferred Shares that, after giving effect to the Arrangement, the ratings of the BCE Preferred Shares would be maintained;
- (g) the opinion of Morgan Stanley (which is subject to matters set forth therein) that the consideration to be received by the BCE Common Shareholders pursuant to the Arrangement is fair from a financial point of view to the BCE Common Shareholders;
- (h) the opinion of Morgan Stanley (which is subject to matters set forth therein) that the Arrangement would not have a material impact from a financial point of view on the holders of BCE Preferred Shares;
- (i) the Plan of Arrangement would be subject to the approval of the holders of not less than two-thirds of the BCE Common Shares voting on a resolution to approve the Plan of Arrangement;
- (j) the Court would have to approve the Plan of Arrangement at a fairness hearing at which any security holder of BCE who is affected by the Plan of Arrangement and who complies with the applicable rules of court procedure, may appear and make submissions to the Court with respect to the terms of the Plan of Arrangement; and
- (k) the BCE Common Shareholders would be given rights of dissent and appraisal under the CBCA.

In view of the wide variety of factors which it considered in making its recommendation, the BCE Board found it impracticable to, and therefore did not, quantify or otherwise assign relative weight to the specific factors it considered in reaching its conclusion.

Morgan Stanley Fairness Opinion

The BCE Board retained Morgan Stanley to provide financial advice to it with respect to the Arrangement. Morgan Stanley was selected by the BCE Board to act as BCE's financial advisor based on Morgan Stanley's qualifications, experience and reputation and its knowledge of the business and affairs of BCE. Morgan Stanley delivered to the BCE Board a written opinion on January 26, 2000 and again on March 13, 2000 that as of such dates and based upon and subject to various conditions set forth in each such opinion the consideration to be received by the BCE Common Shareholders pursuant to the Arrangement is fair from a financial point of view to the BCE Common Shareholders.

The opinion of Morgan Stanley as at March 13, 2000 is attached as Annex G to this Arrangement Circular. BCE Common Shareholders are urged to, and should, read the opinion carefully and in its entirety. Morgan Stanley's opinion is directed to BCE's Board and addresses only the fairness of the consideration to be received by the BCE Common Shareholders pursuant to the Arrangement from a financial point of view as of the date of the opinion. Morgan Stanley's opinion does not address any other aspect of the Arrangement and does not constitute a recommendation to the BCE Common Shareholders as to how to vote at the BCE Meeting. The summary of the opinion of Morgan Stanley set forth in this Arrangement Circular, although materially complete, is qualified in its entirety by references to the full text of such opinion.

In rendering its opinion dated March 13, 2000, Morgan Stanley, among other things: (i) reviewed certain publicly available financial statements and other information of BCE and Nortel Networks, respectively; (ii) reviewed certain internal financial statements, including financial forecasts of BCE and other financial and operating data concerning BCE prepared by management of BCE; (iii) discussed the past and current operations and financial condition and the prospects, including information relating to certain strategic, financial and operational benefits anticipated from the Arrangement, of BCE and Nortel Networks with senior executives of BCE and Nortel Networks, respectively; (iv) participated in discussions among representatives of BCE and its legal advisors and tax advisors; (v) reviewed the Canadian Federal Tax Ruling; (vi) reviewed the reported prices and trading activity for the BCE Common Shares and the Nortel Networks Common Shares, respectively; (vii) reviewed and discussed with management of BCE the proposed dividend policy of BCE, including a reduction in the current dividend on the BCE Common Shares; (viii) compared the financial performance of BCE and the prices and trading activity of the BCE Common Shares with that of certain other comparable publicly traded companies and their securities; (ix) reviewed the Arrangement

Agreement; (x) reviewed such other corporate, industry and financial market information as it deemed appropriate; and (xi) performed such other analyses as it deemed appropriate.

Morgan Stanley assumed and relied upon, without independent verification, the accuracy and completeness of the information reviewed by it for the purposes of its fairness opinion. With respect to the financial forecasts of BCE and discussions relating to the strategic, financial and operational benefits anticipated from the Arrangement, Morgan Stanley assumed that they had been prepared by BCE and/or Nortel Networks, as the case may be, on bases reflecting the best currently available estimates and judgments of the future competitive, operating and regulatory environments and related financial performance of BCE and Nortel Networks. Morgan Stanley did not make any independent valuation or appraisal of the shares, assets or liabilities of BCE or Nortel Networks, nor was Morgan Stanley furnished with any such appraisals or valuations. In addition, Morgan Stanley assumed that the Arrangement will be effected in accordance with the terms of the Arrangement Agreement and that all conditions precedent thereto will be satisfied and that all consents, permissions, exemptions or orders of relevant authorities and third parties will be obtained without adverse condition or qualification. For purposes of its fairness opinion, Morgan Stanley relied upon discussions with senior management regarding the future dividend policy of BCE. Morgan Stanley's opinion is necessarily based on economic, market and other conditions as in effect on, and the information made available to it as of, the date of its opinion.

BCE has agreed to pay Morgan Stanley a fee for financial advisory services in connection with the Arrangement, including providing the opinions referred to above. In addition, BCE has agreed to reimburse Morgan Stanley for reasonable out-of-pocket expenses, including the reasonable fees and disbursements of its counsel, and has agreed to indemnify Morgan Stanley in respect of certain liabilities, including liabilities under applicable securities legislation, which may be incurred by it in connection therewith or contribute to payments which Morgan Stanley may be required to make in respect thereof.

During the past two years, Morgan Stanley has provided financial advisory and financing services to BCE, Nortel Networks and their respective subsidiaries and has received customary fees in connection with such services.

In addition to the various financial advisory and related services provided to BCE, Nortel Networks and their respective subsidiaries during the past two years, Morgan Stanley may be expected to provide further similar services in the future. In addition, Morgan Stanley, among other investment dealers, has been engaged by BCE, Nortel Networks and their respective subsidiaries from time to time to execute securities transactions in the ordinary course of business and has been paid normal commissions in connection therewith.

Recommendation of the BCE Board

The BCE Board, having considered, among other things, the reasons for the Arrangement and the opinions of Morgan Stanley as described above, has unanimously approved the Arrangement, the terms of the Arrangement Agreement and the transactions contemplated thereby and unanimously recommends that the BCE Common Shareholders vote FOR the BCE Arrangement Resolution.

Nortel Networks

In early October 1999, senior management of BCE informed Nortel Networks' senior management that BCE was considering the possible distribution of the Nortel Networks Common Shares held by BCE to the BCE Common Shareholders pursuant to what is known as a "butterfly" reorganization under Canadian income tax laws. As referred to above, the Initial BCE Proposal contemplated that BCE would distribute to the BCE Common Shareholders shares of a separate publicly traded holding company whose sole asset would be Nortel Networks Common Shares previously held by BCE. The Initial BCE Proposal raised a number of concerns for Nortel Networks primarily because of the holding company structure, the corporate governance issues which would have to be addressed, the potential negative impact that the holding company structure would have on the market price of Nortel Networks Common Shares and the fact that the holding company structure would not eliminate the market "overhang" of a large block of stock in Nortel Networks. Accordingly, it was agreed that the respective senior managements and legal and financial advisors of BCE and Nortel Networks would work together to identify a transaction structure that would be beneficial for both

companies and their respective shareholders. The Arrangement is the transaction structure which resulted from these joint efforts.

Special Committee

On October 28, 1999, the Nortel Networks Board established a special committee (the “Special Committee”) consisting of Frank C. Carlucci, L. Yves Fortier, Q.C. (Chairman), Robert A. Ingram, Guylaine Saucier and Sherwood H. Smith, Jr., none of whom is an officer, employee or insider of Nortel Networks (except by virtue of being a director thereof) or of BCE. The Special Committee’s responsibilities included (i) the consideration of alternatives to the Initial BCE Proposal, (ii) advising the Nortel Networks Board as to whether and on what terms Nortel Networks should participate in and/or support or otherwise respond to the proposed transaction, and (iii) advising the Nortel Networks Board as to whether the transaction structure ultimately proposed would be fair to the Nortel Networks Public Shareholders. The Special Committee appointed Ogilvy Renault to act as its legal counsel and RBC DS to act as its financial advisor. The Special Committee also received financial advice from Credit Suisse First Boston on the U.S. market implications of the proposed transaction.

Between October 28, 1999 and January 26, 2000, the Special Committee met on nine occasions. In addition, on a number of occasions, the Chairman of the Special Committee received progress reports on the discussions with BCE and its advisors from members of Nortel Networks’ management and the Special Committee’s legal and financial advisors.

During the course of its mandate, the Special Committee explored with Nortel Networks’ management and its advisors various alternatives and modifications to the Initial BCE Proposal, including structures designed to eliminate the two non-fungible public floats that would be created by the Initial BCE Proposal; various reciprocal “governance” arrangements that could be put in place in connection with the Initial BCE Proposal designed to minimize any disparity in the trading prices of the holding company’s and Nortel Networks’ shares; and the Arrangement. Each of the alternatives considered was analyzed from a capital markets, Canadian and U.S. income tax, legal, accounting and government relations perspective. The Special Committee concluded that the Arrangement was clearly more beneficial from the perspective of Nortel Networks and the Nortel Networks Public Shareholders than any of the alternatives that were considered feasible. The Special Committee evaluated the Arrangement in light of the alternatives available to BCE to restructure its ownership interest in Nortel Networks and BCE’s apparent determination to address its market valuation issues with or without Nortel Networks’ involvement.

On January 26, 2000, the Special Committee met to review the terms of the Arrangement Agreement and related documentation with its legal advisors. Presentations were also made by Nortel Networks’ management and the Special Committee received a fairness opinion of RBC DS and an opinion of Nortel Networks’ independent auditors on the accounting treatment of the Arrangement. The Special Committee unanimously concluded that the Arrangement is fair to the Nortel Networks Public Shareholders and in the best interests of Nortel Networks, and unanimously recommended that the Nortel Networks Board authorize Nortel Networks to enter into the Arrangement Agreement.

In reaching its conclusion and recommendation to the Nortel Networks Board, the Special Committee considered and relied upon, among other things, the following factors:

- (a) the Arrangement is expected to produce a superior result for the shareholders of Nortel Networks, particularly the Nortel Networks Public Shareholders, when compared to the Initial BCE Proposal, due to the fact that the Arrangement (i) involves a transparent structure that the market is expected to understand, (ii) resolves any market uncertainty regarding the independence of Nortel Networks from BCE, (iii) enhances the flexibility and autonomy of Nortel Networks to pursue strategic transactions on an equal footing with its industry peers, (iv) clearly transfers control of Nortel Networks into the market with the distribution to the BCE Common Shareholders of substantially all of the Nortel Networks Common Shares held by BCE, (v) eliminates substantially all of the market “overhang” associated with BCE’s shareholding, (vi) broadens and diversifies Nortel Networks’ shareholder base and enhances market liquidity, and (vii) aligns the capital structure of Nortel Networks with that of its peers;
- (b) the opinion of RBC DS dated January 26, 2000 as to the fairness from a financial point of view of the Arrangement to the Nortel Networks Public Shareholders;

- (c) the opinion of Nortel Networks' independent auditors dated January 26, 2000 that the accounting treatment of the Arrangement would not result in a new basis of accounting under either U.S. or Canadian generally accepted accounting principles;
- (d) the Plan of Arrangement would be subject to the approval of the holders of not less than two-thirds of the Nortel Networks Common Shares voting on a resolution to approve the Plan of Arrangement;
- (e) the Court would have to approve the Plan of Arrangement at a fairness hearing at which any security holder of Nortel Networks who is affected by the Plan of Arrangement and who complies with the applicable rules of court procedure, may appear and make submissions to the Court with respect to the terms of the Plan of Arrangement; and
- (f) the Nortel Networks Public Shareholders would be given rights of dissent and appraisal under the CBCA.

In view of the wide variety of factors which it considered in making its recommendation, the Special Committee found it impracticable to, and therefore did not, quantify or otherwise assign relative weight to the specific factors it considered in reaching its conclusion.

On January 26, 2000, the Nortel Networks Board met to receive the report of the Special Committee. Having been advised that the BCE Board had approved the proposed transaction at its meeting earlier that afternoon, the Nortel Networks Board then approved the Arrangement. On January 26, 2000, Nortel Networks issued a press release announcing that it had entered into the Arrangement Agreement with BCE.

On March 10, 2000, the Special Committee subsequently recommended to the Nortel Networks Board that it recommend to the Nortel Networks Common Shareholders that the Arrangement be approved. On the same date, the Special Committee reviewed with its legal and financial advisors the proposed terms of the New Nortel Rights Plan and recommended to the Nortel Networks Board that such rights plan be submitted to the Nortel Networks Common Shareholders for approval.

On March 13, 2000, RBC DS delivered another fairness opinion dated March 13, 2000 which is summarized below and is appended as Annex H to this Arrangement Circular. The Nortel Networks Board met on March 13, 2000 and accepted the recommendation of the Special Committee that it recommend to the Nortel Networks Common Shareholders that the Arrangement be approved. Also at the meeting, the Nortel Networks Board accepted the recommendation of the Special Committee that the New Nortel Rights Plan be submitted to the Nortel Networks Common Shareholders for approval.

RBC DS Fairness Opinion

Nortel Networks retained RBC DS to provide advice and assistance to Nortel Networks, the Special Committee and the Nortel Networks Board in evaluating the Arrangement, including the preparation and delivery to the Special Committee and the Nortel Networks Board of RBC DS' opinion as to the fairness of the Arrangement from a financial point of view to the Nortel Networks Public Shareholders. RBC DS rendered such opinion on January 26, 2000 and again on March 13, 2000. The form of the opinion dated March 13, 2000 provided to the Special Committee and the Nortel Networks Board is set out in Annex H to this Arrangement Circular and should be read in its entirety by Nortel Networks Public Shareholders.

RBC DS is one of Canada's largest investment banking firms, with operations in all facets of corporate and government finance, mergers and acquisitions, equity and fixed income sales and trading and investment research.

Nortel Networks initially contacted RBC DS regarding a potential advisory assignment in October 1999, and RBC DS was formally engaged by Nortel Networks through an engagement agreement dated as of November 8, 1999. The terms of the engagement agreement provide that RBC DS is to be paid a fee for its services as financial advisor to Nortel Networks, the Special Committee and the Nortel Networks Board. In addition, RBC DS is to be reimbursed for its reasonable out-of-pocket expenses and to be indemnified by Nortel Networks in certain circumstances. The fees payable to RBC DS are not contingent upon the conclusions reached in the fairness opinion or completion of the Arrangement.

In preparing its opinion, RBC DS made several assumptions, including that all of the conditions required to implement the Arrangement, as set forth in the Arrangement Agreement, will be met. In rendering its opinion dated March 13, 2000, RBC DS reviewed and relied upon, among other things: (i) the Arrangement Agreement; (ii) the most recent draft, dated March 12, 2000, of the Arrangement Circular; (iii) the most recent draft, dated March 13, 2000, of the Notice of Annual and Special Meeting of Shareholders and Proxy Circular and Proxy Statement of Nortel Networks; (iv) the Canadian Federal Tax Ruling; (v) public disclosure documents of Nortel Networks; (vi) public information relating to the business, operations, financial performance and stock trading history of Nortel Networks, BCE and other selected public companies; (vii) public information with respect to other transactions of a comparable nature to the Arrangement; (viii) discussions with the senior management, auditors, legal counsel and other financial advisors of or to Nortel Networks; (ix) discussions with the senior management, legal counsel and financial advisors of or to BCE; (x) representations contained in an officers' certificate of Nortel Networks delivered to RBC DS; and (xi) such other corporate, industry and financial market information, investigations and analyses as RBC DS considered appropriate in the circumstances. RBC DS relied upon the completeness, accuracy and fair presentation of all of the financial and other information obtained by it and did not attempt to independently verify such information. RBC DS' opinion is conditional upon the completeness, accuracy and fair presentation of such information. RBC DS did not prepare a valuation of Nortel Networks or BCE or any of their respective securities or assets for the purposes of its assessment of the fairness of the Arrangement from a financial point of view to the Nortel Networks Public Shareholders.

In considering the fairness of the Arrangement from a financial point of view to the Nortel Networks Public Shareholders, RBC DS compared the potential short and long-term impact on the Nortel Networks Public Shareholders resulting from the Arrangement to the continuation of the status quo and the potential impact of alternative reorganization structures involving BCE's shareholding in Nortel Networks, including in particular the Initial BCE Proposal. Based upon and subject to the assumptions, limitations and analysis set forth in its written opinion, RBC DS is of the opinion that, as at March 13, 2000, the Arrangement is fair from a financial point of view to the Nortel Networks Public Shareholders.

During the past two years, RBC DS has provided financial advisory and financing services to BCE, Nortel Networks and their respective subsidiaries and has received customary fees in connection with such services.

In addition to the various financial advisory and related services provided to BCE, Nortel Networks and their respective subsidiaries during the past two years, RBC DS may provide further services in the future. In addition, RBC DS, among other investment dealers, has been engaged by BCE, Nortel Networks and their respective subsidiaries from time to time to execute securities transactions in the ordinary course of business and has been paid normal commissions in connection therewith.

Recommendation of the Nortel Networks Board

The Nortel Networks Board (other than Messrs. Barford, Currie, Monty and Wilson who declared their interest as directors of BCE and refrained from voting with respect to the Arrangement), having considered among other things the recommendations and reasons of the Special Committee outlined above and the fairness opinion of RBC DS, has unanimously approved the Arrangement, the terms of the Arrangement Agreement and the transactions contemplated thereby and unanimously recommends that the Nortel Networks Common Shareholders vote FOR the Nortel Networks Arrangement Resolution.

Interests of Certain Persons in the Transaction

Directors and senior officers of BCE hold in the aggregate 257,110 BCE Common Shares, 1,424,970 BCE Existing Options and 137,226 BCE share units under The BCE Inc. Share Unit Plan for Senior Executives and Other Key Employees (1997) and The BCE Inc. Share Unit Plan for Non-Employee Directors (1997). Directors (including four directors of Nortel Networks) and senior officers of BCE also hold in the aggregate 397,480 Nortel Networks Common Shares, options to purchase 663,334 Nortel Networks Common Shares and 3,649 share units under the Nortel Networks Directors' Deferred Share Compensation Plan.

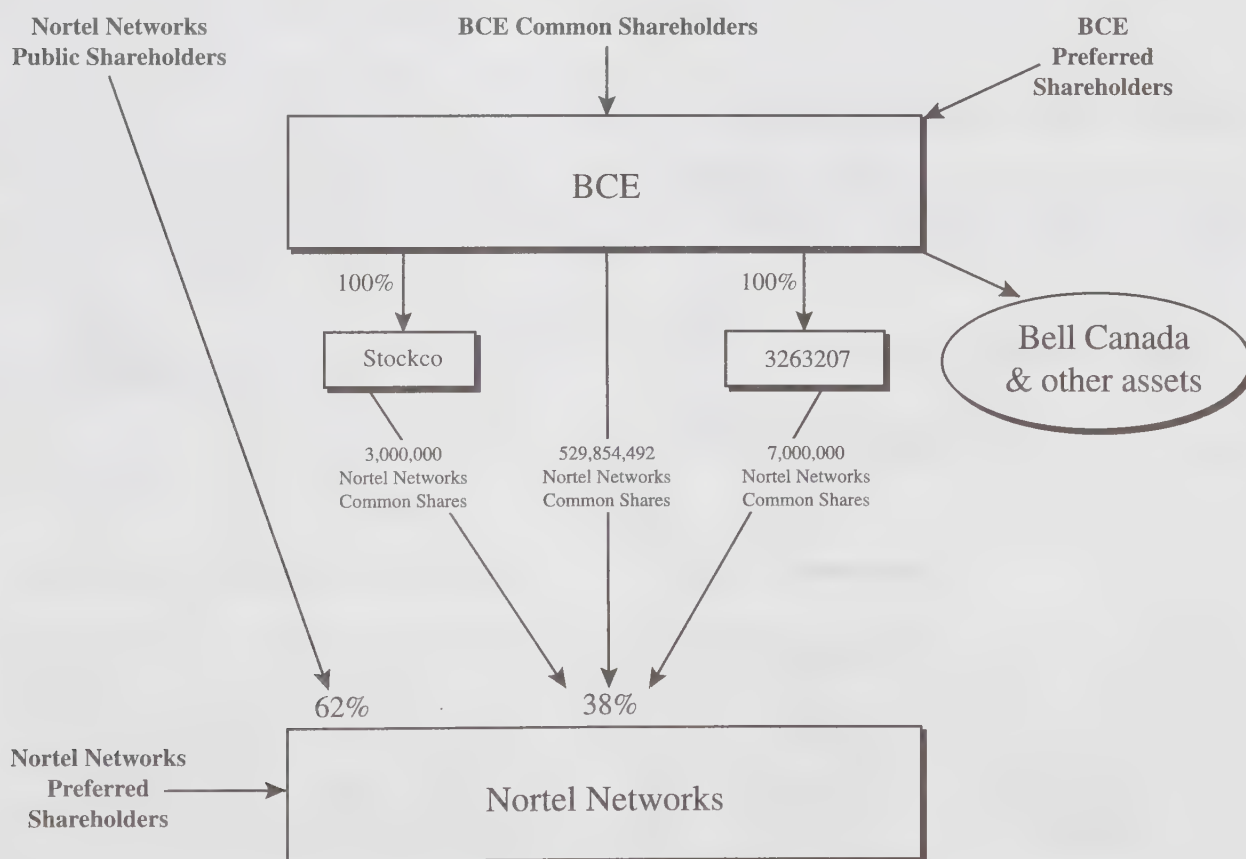
Directors and senior officers of Nortel Networks hold in the aggregate 956,096 Nortel Networks Common Shares, options to purchase 10,549,041 Nortel Networks Common Shares and 23,589 share units under the Nortel Networks Corporation Directors' Deferred Share Compensation Plan, which, under the Plan of Arrangement, will become an equivalent number (on a pre-New Nortel Stock Split basis) of New Nortel Common Shares, options to purchase New Nortel Common Shares and share units under the Nortel Networks Corporation Directors' Deferred Share Compensation Plan. Directors (including four directors of BCE) and senior officers of Nortel Networks also hold in the aggregate 240,174 BCE Common Shares, 976,002 BCE Existing Options and 99,154 BCE share units under The BCE Inc. Share Unit Plan for Senior Executives and Other Key Employees (1997) and The BCE Inc. Share Unit Plan for Non-Employee Directors (1997).

The Arrangement Agreement and the Plan of Arrangement

The following description of the transactions in connection with the Arrangement is a summary only and is qualified in its entirety by reference to the full text of the Arrangement Agreement, a copy of which is attached to this Arrangement Circular as Annex F, and the Plan of Arrangement, which details all of the various steps in the Arrangement, a copy of which is attached as Appendix I to the Arrangement Agreement, each of which should be read carefully in its entirety.

Pre-Arrangement Organizational Structure

The following diagram sets forth the organizational structure of BCE and Nortel Networks immediately before giving effect to the Arrangement and related transactions.



Details of the Transaction

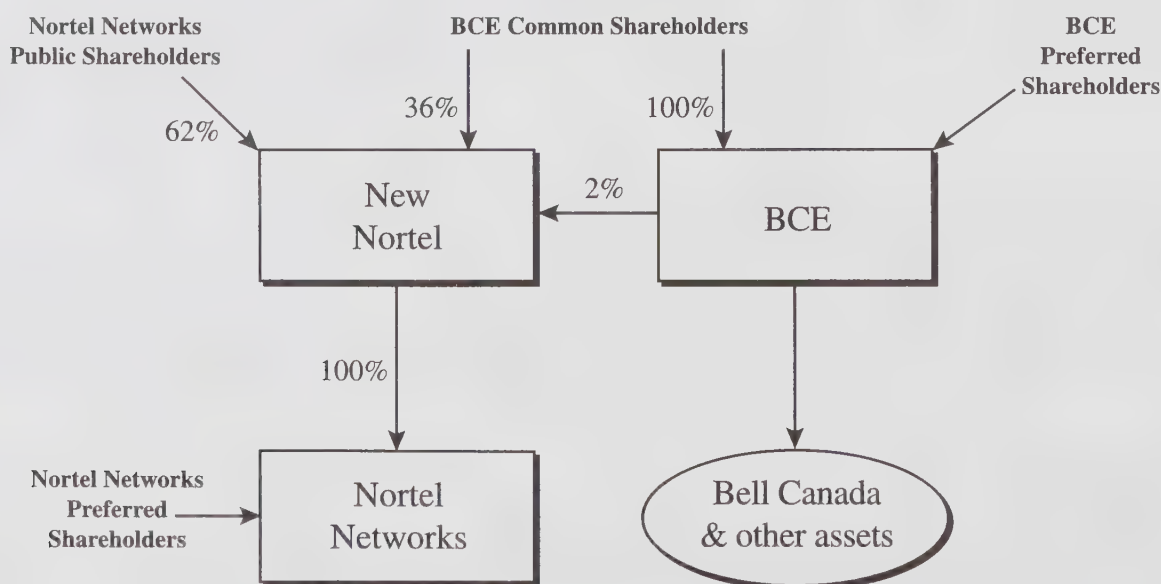
Prior to the Effective Date, each of 3263207 and BCE will transfer all of their Nortel Networks Common Shares to Stockco in consideration for, in the case of the transfer by 3263207, Stockco Preferred Shares and, in the case of BCE, Stockco Common Shares and other consideration.

The Plan of Arrangement provides for what is referred to as a “butterfly” reorganization of BCE and the exchange of all Nortel Networks Common Shares for New Nortel Common Shares. In essence, on the Effective Date, BCE Common Shareholders will have their BCE Common Shares divided into two classes of shares, one class representing the value of the Nortel Networks investment that is to be indirectly distributed to the BCE Common Shareholders and the other representing the net value of all of BCE’s non-Nortel Networks assets plus the value of the Nortel Networks investment that is to be retained by BCE. Through a complex series of exchanges, the shares representing the value of the Nortel Networks investment to be distributed will ultimately be transferred to New Nortel and BCE Common Shareholders will receive approximately 0.78 of a New Nortel Common Share for each BCE Common Share held. BCE Common Shareholders will also continue to own a BCE Common Share, which will represent the value of an interest in BCE’s remaining assets. Also as part of the Arrangement, on the Effective Date the Nortel Networks Public Shareholders will exchange their existing Nortel Networks Common Shares on a share-for-share basis for New Nortel Common Shares. As a result, all Nortel Networks Common Shares will be owned by New Nortel. New Nortel’s name will be changed to *Nortel Networks Corporation* (in French *Corporation Nortel Networks*) and Nortel Networks’ name will be changed to *Nortel Networks Limited* (in French *Corporation Nortel Networks Limitée*). Finally, the New Nortel Stock Split will occur effective at the close of business on the Record Date.

Assuming exercise of all New Nortel/BCE Options, the Nortel Networks Public Shareholders will own approximately 62% of New Nortel, while approximately 36% will be owned by the BCE Common Shareholders and, consistent with BCE’s plans independent of the Arrangement, the remaining approximately 2% will be retained by BCE to fund further growth.

Post-Arrangement Organizational Structure

The following diagram sets forth the organizational structure of BCE and New Nortel immediately after giving effect to the Arrangement and related transactions (assuming exercise of all New Nortel/BCE Options).



Description of New Nortel Share Capital

The Articles of New Nortel provide that New Nortel is authorized to issue the same number and class of shares as Nortel Networks; namely an unlimited number of common shares, an unlimited number of Class A Preferred Shares issuable in series and an unlimited number of Class B Preferred Shares issuable in series.

Common Shares

Holders of New Nortel Common Shares are entitled to one vote per share on all matters voted on at all meetings of shareholders, except meetings at which only holders of other classes or series of shares of New Nortel are entitled to vote.

Subject to the rights, privileges, restrictions and conditions attaching to any other class or series of shares of New Nortel, holders of New Nortel Common Shares have the right to receive any dividends declared and payable by New Nortel on New Nortel Common Shares and the right to receive the remaining assets of New Nortel upon liquidation, dissolution or winding-up, if any, after payment of all debts and liabilities.

Holders of New Nortel Common Shares have no preemptive, redemption or conversion rights. No New Nortel Common Shares will be issued until the Effective Date. The New Nortel Common Shares to be issued in the Arrangement will be validly issued, fully paid and non-assessable.

Preferred Shares

The New Nortel Board may, from time to time, issue Class A Preferred Shares and Class B Preferred Shares (collectively “New Nortel Preferred Shares”) in one or more series and determine for any such series, by resolution passed before issuance, its designation, number of shares and respective rights, privileges, restrictions and conditions.

The holders of New Nortel Preferred Shares do not have the right to receive notice of, attend, or vote at, any meeting of shareholders except to the extent otherwise determined by the New Nortel Board and set forth in the articles of amendment designating any series of New Nortel Preferred Shares or as provided in the CBCA. Holders of New Nortel Preferred Shares have no preemptive rights.

The provisions attaching to the New Nortel Preferred Shares may be repealed, altered, modified or amended with approvals as may be required by the CBCA.

No New Nortel Preferred Shares will be issued prior to the Arrangement and none will be issued pursuant to the Arrangement.

Directors of New Nortel

The Articles of New Nortel also provide that the New Nortel Board shall consist of a minimum of three and a maximum of fifteen directors. Within such minimum and maximum numbers, the New Nortel Board shall, from time to time, determine the actual number of directors and, until otherwise determined, the actual number of directors will be 11. In addition, the Articles of New Nortel provide that, subject to the maximum number of directors provided for in the Articles, the New Nortel Board may appoint one or more additional directors, who shall hold office for a term expiring not later than the close of the next annual meeting of shareholders, provided that the total number of additional directors so appointed shall not exceed one third of the number of directors elected at the previous annual meeting of shareholders.

The initial directors of New Nortel are:

THE HON. JAMES JOHNSTON BLANCHARD, 57, Beverly Hills, Michigan, who has been a director of Nortel Networks since May 1, 1997.

Mr. Blanchard has been a shareholder in the law firm of Verner, Liipfert, Bernhard, McPherson and Hand since April 1996. He was United States Ambassador to Canada from August 1993 to March 1996, a shareholder in the law firm of Verner, Liipfert, Bernhard, McPherson and Hand from March 1991 to August 1993, Governor of the State of Michigan from January 1983 to January 1991, and a member of the United States House of Representatives prior thereto. Mr. Blanchard is also a director of Crown Life Insurance Company, EdperBrascan Corporation, Enbridge Inc., Kasten Chase Applied Research, Long Distance of Michigan, Inc., Minacs Worldwide Inc., Teknion Corporation, and The John F. Kennedy Memorial Library Foundation.

ROBERT ELLIS BROWN, 55, Westmount, Québec, who is being nominated for election as a director of Nortel Networks for the first time at the Nortel Networks Meeting.

Mr. Brown has been President and Chief Executive Officer of Bombardier Inc., a corporation involved in the manufacturing of aircraft and transportation equipment, since February 1999. Mr. Brown was President and Chief Operating Officer of Bombardier Aerospace from April 1996 to February 1999, and President of Bombardier Aerospace Group – North America prior thereto. Mr. Brown is also a director of Bombardier Inc., and Bell Canada International Inc.

FRANK CHARLES CARLUCCI, 69, McLean, Virginia, who has been a director of Nortel Networks since October 17, 1989 and Chairman of the Nortel Networks Board since April 29, 1999. On March 13, 2000, Mr. Carlucci was appointed non-executive Chairman of the New Nortel Board.

Mr. Carlucci is Chairman of The Carlyle Group, a Washington-based merchant banking firm. He is also Chairman of the Board and a director of Neurogen Corp., and a director of Ashland, Inc., IRI International Corporation, Kaman Corporation, Pharmacia & Upjohn, Inc., Quaker Oats Co., SunResorts, Ltd. and Texas Biotechnology Corporation.

FRANK ANDREW DUNN, 46, Oakville, Ontario, who has not previously served as a director of Nortel Networks.

Mr. Dunn has been Chief Financial Officer of Nortel Networks since January 27, 2000. Mr. Dunn was Senior Vice-President and Chief Financial Officer of Nortel Networks from February 1, 1999, Senior Vice-President, Finance and Planning of Nortel Networks from April 6, 1997, Vice-President, Operations Finance and Planning of Nortel Networks from July 1, 1996, Vice-President, Operations Finance and Vice-President, Finance, Nortel North America of Nortel Networks from March 1, 1996, and Vice-President, Finance North America of Nortel Networks prior thereto.

L. YVES FORTIER, C.C., Q.C., 64, Westmount, Québec, who has been a director of Nortel Networks since April 30, 1992.

Mr. Fortier is a senior partner and Chairman of the law firm of Ogilvy Renault. He is also Governor (Chairman of the Board) of Hudson's Bay Company and a director of DuPont Canada Inc., Royal Bank of Canada, Southam Inc., and Nova Chemicals Corporation.

ROBERT ALEXANDER INGRAM, 57, Durham, North Carolina, who has been a director of Nortel Networks since April 29, 1999.

Mr. Ingram has been Chief Executive of Glaxo Wellcome plc ("Glaxo plc"), a corporation involved in the research, development, manufacturing and sale of pharmaceuticals, since October 1997 and Chairman of Glaxo Wellcome Inc. ("Glaxo Inc."), Glaxo plc's United States subsidiary, since January 1999. Mr. Ingram was Chairman, President and Chief Executive Officer of Glaxo Inc. from October 1997, and President and Chief Executive Officer of Glaxo Inc. prior thereto. Mr. Ingram is also a director of Glaxo plc and Wachovia Corporation.

SIR ANTONY PILKINGTON, 64, Kingsley, Cheshire, England, who has been a director of Nortel Networks since April 23, 1998.

Sir Antony Pilkington is a corporate director. He was Chairman of Pilkington plc, a manufacturer and distributor of glass products, until July 1995.

JOHN ANDREW ROTH, 57, Orangeville, Ontario, who has been a director of Nortel Networks since April 26, 1996.

Mr. Roth has been President and Chief Executive Officer of Nortel Networks since September 1, 1999. Mr. Roth was Vice-Chairman and Chief Executive Officer of Nortel Networks from August 31, 1998, President and Chief Executive Officer of Nortel Networks from October 2, 1997, President and Chief Operating Officer of Nortel Networks from February 27, 1997, Executive Vice-President and Chief Operating Officer of Nortel Networks from July 1, 1996, Chief Operating Officer and President, Nortel North America of Nortel Networks from July 1, 1995, and Executive Vice-President and President, Nortel North America of Nortel Networks prior thereto.

GUYLAINE SAUCIER, C.M., F.C.A., 53, Montréal, Québec, who has been a director of Nortel Networks since May 1, 1997.

Mrs. Saucier has been Chairman of the Board and a director of the Canadian Broadcasting Corporation, a public broadcaster, since April 1995. She is also Chair of the Canadian Institute of Chartered Accountants, and a director of Axa Assurances Inc., Bank of Montreal, Petro-Canada, and Tembec Inc.

SHERWOOD HUBBARD SMITH, JR., 65, Raleigh, North Carolina, who has been a director of Nortel Networks since April 28, 1994.

Mr. Smith has been Chairman Emeritus of the Board of Directors of Carolina Power & Light Company, an electric utility company, since May, 1999. Mr. Smith was non-executive Chairman of the Board of Carolina Power & Light Company from October, 1996, and Chairman of the Board and Chief Executive Officer of Carolina Power & Light Company prior thereto. He is also a director of Springs Industries Inc. and Wachovia Corporation, and a trustee of The Northwestern Mutual Life Insurance Company.

LYNTON RONALD WILSON, O.C. 59, Oakville, Ontario, who has been a director of Nortel Networks since April 25, 1991.

Mr. Wilson has been Chairman of the BCE Board since May 1998 and since January 1999, has served in a non-executive capacity. Mr. Wilson was Chairman and Chief Executive Officer of BCE from May 1996, and Chairman, President and Chief Executive Officer of BCE prior thereto. He is Chairman of the Board and a director of CAE Inc. He is also a director of BCE, Bell Canada International Inc., DaimlerChrysler AG, Imperial Oil Limited, and Ontario Power Generation Inc.

Election of Directors of New Nortel

Under the Articles of New Nortel, each director must be elected by a resolution passed by not less than two-thirds of the number of votes attaching to the shares represented in person or by valid proxy at the meeting of shareholders at which the resolution is voted upon and carrying the right to vote on the resolution, as determined and certified by the scrutineers for that meeting or signed by all the shareholders entitled to vote on that resolution (the "Director Election Requirements"). The Director Election Requirements contrast with the usual method of electing directors of a CBCA corporation: that is, by an "ordinary resolution" passed by a majority of the votes cast by the shareholders who voted in person or by valid proxy in respect of that resolution.

The purpose of having the Director Election Requirements form part of the Articles of New Nortel is to ensure that control of New Nortel is not deemed to have been acquired for Canadian income tax purposes by the Nortel Networks Public Shareholders collectively as part of the Arrangement and related transactions, which is required for the Arrangement to occur on a tax-deferred basis under Canadian income tax law.

The Canadian Federal Tax Ruling, in reciting the facts related to the Arrangement, provides, in relation to the Director Election Requirements provisions in the Articles of New Nortel, that neither New Nortel nor any successor thereof will for a period of two years from the Effective Date initiate a request for approval by its shareholders of a modification to the Articles of New Nortel to remove the Director Election Requirements, it being understood that New Nortel (or any successor) would not be in breach of this undertaking if (i) a shareholder proposal is made under Section 137 of the CBCA for such purpose, (ii) a meeting is requisitioned under Section 143 or Section 144 of the CBCA to consider such matter, or (iii) there is a genuine risk that a proceeding for an oppression remedy under the CBCA in such regard would be successful. Further, in the event of a shareholder proposal or requisition referred to in (i) or (ii) above, New Nortel (or any successor) would not take any action to encourage a vote in favour of the removal of the Director Election Requirements unless such action was either: (a) required by law, or (b) determined in good faith by the New Nortel Board (or the board of directors of any successor) to be consistent with the discharge of such board's fiduciary duties in the circumstances. None of these exceptions is currently foreseen.

Fractional Shares

Under the Arrangement, no certificates representing fractional New Nortel Common Shares will be issued. All fractional New Nortel Common Shares otherwise issuable to BCE Common Shareholders (after the New Nortel Stock Split) will be aggregated, rounded up to the nearest whole number, and issued to Montreal Trust Company of Canada on behalf of the BCE Common Shareholders otherwise entitled to receive fractional shares. Montreal Trust Company of Canada will sell such New Nortel Common Shares for cash proceeds in the open market and each BCE Common Shareholder otherwise entitled to receive a fractional New Nortel Common Share will be entitled to receive his or her *pro rata* proportion of such cash proceeds.

Treatment of BCE Stock Options

As of December 31, 1999, there were 5,271,613 BCE Existing Options outstanding under the BCE 1985 SOP and 495,399 BCE Existing Options outstanding under the BCE 1999 SOP. The BCE Existing Options generally have a term of ten years and generally vest either over four years or at the end of the fifth year after the issuance. The exercise prices of the BCE Existing Options range from \$20 to \$77 (with a weighted average exercise price of \$55.92).

Each of the BCE Option Plans contains the following provision:

“In the event that the outstanding Shares of the Corporation shall be changed into or exchanged for a different number or kind of securities of the Corporation or of another corporation, whether through an arrangement, amalgamation or other similar statutory procedure . . . there shall be substituted for each Share subject to any such Option . . . the number and kind of securities into which each outstanding Share shall be so changed or for which each such Share shall be exchanged.”

Accordingly, it was determined that the best way to deal with the rights of BCE Optionholders as a result of the distribution by BCE of substantially all of its interest in Nortel Networks was to restructure the BCE Existing Options in such manner as to (i) be consistent with the provisions of the BCE Option Plans, (ii) preserve the economic benefit to the BCE Optionholders without altering the treatment of that benefit under the Tax Act, and (iii) not result in any dilution in terms of equity or voting to the Nortel Networks Public Shareholders.

Pursuant to the Arrangement, the BCE Existing Options will be cancelled and there will be issued to each BCE Optionholder:

- (a) one BCE Replacement Option to acquire one BCE Common Share with an exercise price which is reduced proportionately to reflect the disposition of the Nortel Networks Common Shares previously held by BCE; and
- (b) one New Nortel/BCE Option to acquire approximately 0.78 of a New Nortel Common Share.

The exercise prices of the BCE Replacement Options and the New Nortel/BCE Options will be determined in accordance with the following formulas:

$$\text{BCE Replacement Option Exercise Price (per BCE Common Share)} = \text{PE} \times \left[1 - \frac{\text{OV}}{\text{PE} + (0.78 \text{ (approx.)} \times \text{PNN})} \right]$$

$$\text{New Nortel/BCE Option Exercise Price (per 0.78 (approx.) New Nortel Common Share)} = 0.78 \text{ (approx.)} \times \text{PNN} \times \left[1 - \frac{\text{OV}}{\text{PE} + (0.78 \text{ (approx.)} \times \text{PNN})} \right]$$

where:

“OV” is the difference between the fair market value of a BCE Common Share immediately preceding the Effective Date and the exercise price of the BCE Existing Option;

“PE” is the fair market value of a BCE Common Share immediately following the Effective Date; and

“PNN” is the fair market value of a New Nortel Common Share immediately following the Effective Date.

The pricing formulas are designed to maintain the aggregate “in the money” amount of the BCE Replacement Options and New Nortel/BCE Options held by each BCE Optionholder immediately following the Arrangement at an amount identical to the “in the money” amount immediately before the Arrangement of such person’s BCE Existing Options. The pricing formulas and number of New Nortel Common Shares issuable upon exercise of the New Nortel/BCE Options are given without reference to the New Nortel Stock Split and will be appropriately adjusted to reflect the New Nortel Stock Split.

In order to ensure that the treatment of BCE Existing Options does not result in any dilution to the Nortel Networks Public Shareholders, the fraction (approximately 0.78 pre-New Nortel Stock Split) representing the portion of a New Nortel Common Share to be issued per BCE Common Share in the Arrangement was negotiated between BCE and Nortel Networks on the basis that all BCE Existing Options had been exercised. As a result, the BCE Common Shareholders’ position in New Nortel will be diluted by reason of the New Nortel/BCE Options. Accordingly, to recapture a portion of this dilutive impact for the benefit of the BCE Common Shareholders, the exercise price paid to New Nortel on the exercise of the New Nortel/BCE Options will be paid to BCE by New Nortel at the time of exercise. For the same reason, BCE will also have the right, exercisable for a period of 30 days, to exercise all New Nortel/BCE Options which expire unexercised or are forfeited. The exercise price paid by BCE also will be repaid to BCE by New Nortel.

Most BCE Existing Options have a related special compensation payment granted by BCE or a BCE subsidiary. Notwithstanding the Arrangement, the responsibility for such special compensation payments will remain with BCE or the applicable subsidiary.

After the Effective Date of the Arrangement, BCE intends to continue to issue options exercisable for BCE Common Shares in the normal course under the BCE 1985 SOP and BCE 1999 SOP to the extent there is capacity under such plans to do so.

Treatment of Nortel Networks Stock Option Plans and Share Purchase Plans

Treasury Plans

Nortel Networks currently has a number of stock option and stock purchase plans and agreements (defined as “Nortel Networks Plans” in subsection 1.1(nn) of the Plan of Arrangement) which involve the issuance of Nortel Networks Common Shares from treasury. Under the Plan of Arrangement, the Nortel Networks Plans, including the Nortel Networks 2000 Stock Option Plan (if such plan is approved by the Nortel Networks Common Shareholders at the Nortel Networks Meeting), will be assumed by New Nortel. Each Nortel Networks Option outstanding on the Effective Date shall be assumed by New Nortel and deemed to constitute an option to acquire, on the same terms and conditions as were applicable under such Nortel Networks Option prior to the Effective Date, the same number of New Nortel Common Shares as the number of Nortel Networks Common Shares that were subject to the assumed Nortel Networks Option (subsequently adjusted for the New Nortel Stock Split).

The Nortel Networks Shareholder Dividend Reinvestment and Stock Purchase Plan is a Nortel Networks Plan and will therefore be assumed by New Nortel. The New Nortel Board or an appropriate committee of the New Nortel Board will succeed to the authorities and responsibilities of the Nortel Networks Board or any board committee under each Nortel Networks Plan, and these plans will otherwise continue to be administered in accordance with their current terms.

Open Market Plans

Nortel Networks and its affiliates also have a number of stock purchase plans and stock-based plans (defined as “Retained Nortel Networks Plans” in subsection 1.1(tt) of the Plan of Arrangement) which involve the delivery to plan participants of either Nortel Networks Common Shares purchased on the open market or a benefit based on the value or market trading price of a Nortel Networks Common Share. Under the Plan of Arrangement, any entitlement granted by Nortel Networks, or an affiliate of Nortel Networks, that is outstanding on the Effective Date and that allows a person to receive or purchase Nortel Networks Common Shares, or to receive a benefit based on the value or market trading price of a Nortel Networks Common Share, at any time on or after the Effective Date (including, without limitation, any such entitlement under the Retained Nortel Networks Plans) shall become an entitlement to receive or purchase New Nortel Common Shares or to receive a benefit based on the value or market trading price of a New Nortel Common Share, on a share-for-share basis (adjusted, as appropriate, for the New Nortel Stock Split).

The Retained Nortel Networks Plans will remain as plans of Nortel Networks, but will be amended or adjusted to provide for the purchase of, or calculation of pay-outs by reference to the value or market trading price of, New Nortel Common Shares.

The Nortel Networks Directors’ Deferred Share Compensation Plan is a Retained Nortel Networks Plan and will therefore remain as a plan of Nortel Networks. The New Nortel Board may adopt a New Nortel Directors’ Deferred Share Compensation Plan for its own members.

Qtera Warrants

Pursuant to an agreement and plan of merger, dated as of December 14, 1999, as amended, among Qtera Corporation (“Qtera”), Nortel Networks and NNC Acquisition Corporation (“NNC”), a Delaware corporation and a wholly-owned subsidiary of Nortel Networks, (a) NNC merged with and into Qtera, with Qtera being the surviving corporation in the merger and becoming a wholly-owned subsidiary of Nortel Networks as a result of the merger; (b) Nortel Networks assumed three warrants to purchase shares of common stock of Qtera (the “Qtera Warrants”), only two of which are currently outstanding; and (c) the Qtera Warrants were deemed to constitute warrants to acquire Nortel Networks Common Shares in accordance with the provisions of the agreement and plan of merger. Under the Plan of Arrangement, each Qtera Warrant will be assumed by New Nortel and deemed to constitute a warrant to acquire, on the same terms and conditions, with the necessary changes being made, as were applicable under such Qtera Warrant prior to the Effective Date, the same number of New Nortel Common Shares as the number of Nortel Networks Common Shares that were subject to the assumed Qtera Warrant immediately prior to such assumption (adjusted for the New Nortel Stock Split).

Treatment of Nortel Networks Series 4 Exchange Rights

Under the Plan of Arrangement, the rights and obligations of Nortel Networks under the Nortel Networks Series 4 Exchange Rights will be amended so that if a Nortel Networks Series 4 Exchange Right ever takes force and effect, a holder of a Nortel Networks Series 4 Share will be entitled to acquire from Nortel Networks, New Nortel Common Shares in the same ratio as currently determined under the Nortel Networks Series 4 Exchange Right in respect of Nortel Networks Common Shares unless Nortel Networks elects to redeem for cash all of the Nortel Networks Series 4 Shares in accordance with the provisions attaching thereto. New Nortel will agree with Nortel Networks to deliver New Nortel Common Shares if such shares are required to be delivered pursuant to the exercise of the Nortel Networks Series 4 Exchange Rights. Nortel Networks will agree to issue to New Nortel the number of Nortel Networks Common Shares having a value equal to the value of the New Nortel Common Shares delivered to the holder of the Nortel Networks Series 4 Exchange Right.

Therefore, if such an exchange were to take place, the holder of a Nortel Networks Series 4 Exchange Right would exchange with Nortel Networks such right, together with one Nortel Networks Series 4 Share, for that number of New Nortel Common Shares determined by dividing \$500,000 by the greater of \$2.50 and 95% of the weighted average trading price of the New Nortel Common Shares on the TSE for the 10 trading days ending immediately preceding the exchange date.

Conditions to the Arrangement

Pursuant to the Arrangement Agreement, the following conditions must be satisfied for the Arrangement to become effective:

- (a) the Arrangement must be approved by the BCE Common Shareholders and by the Nortel Networks Common Shareholders in the manner referred to under “Shareholder Approval” below;
- (b) the Arrangement must be approved by the Court as described under “Court Approval” below;
- (c) the Tax Rulings shall have been received and shall remain in full force and effect and all of the transactions referred to in the Tax Rulings as occurring on or prior to the Effective Date shall have occurred and all conditions or terms of the Tax Rulings shall have been satisfied;
- (d) all material consents, orders, rulings, approvals and assurances, including regulatory and judicial approvals and orders, required for the Arrangement and the completion of the other transactions contemplated by the Arrangement Agreement, the Tax Rulings and the Plan of Arrangement shall have been obtained or received, including orders from Canadian provincial securities regulatory authorities to permit the BCE Common Shares and the New Nortel Common Shares to be issued without a prospectus and without the participation of a registered dealer pursuant to the Arrangement and to be freely tradeable thereafter, all on terms and conditions satisfactory to Nortel Networks and BCE acting reasonably;
- (e) no action shall have been instituted and be continuing on the Effective Date for an injunction to restrain, a declaratory judgment in respect of, or damages on account of or relating to, the Arrangement and there shall not be in force any order or decree restraining or enjoining the consummation of the transactions contemplated by the Arrangement Agreement or the Tax Rulings and no cease trading or similar order with respect to any securities of BCE, Nortel Networks, New Nortel, Stockco or 3263207 shall have been issued and remain outstanding;
- (f) no law, regulation or policy shall have been proposed, enacted, promulgated or applied which interferes or is inconsistent with the completion of the Arrangement or the grant of the Tax Rulings or their effective application to the Arrangement;
- (g) in the event that Dissenting BCE Shareholders hold more than 0.5 per cent of the outstanding BCE Common Shares, BCE shall have determined to proceed with the Arrangement;
- (h) in the event that Dissenting Nortel Networks Shareholders hold more than 0.5 per cent of the outstanding Nortel Networks Common Shares, Nortel Networks shall have determined to proceed with the Arrangement;
- (i) the TSE and the NYSE shall have approved the continued listing of the BCE Common Shares and conditionally approved the listing of the New Nortel Common Shares to be issued pursuant to the Arrangement, subject to compliance with normal listing requirements;
- (j) each of BCE, 3263207 and Stockco shall have legal and beneficial ownership of its Nortel Networks Common Shares with good and marketable title thereto, free and clear of all encumbrances; and
- (k) the Arrangement Agreement shall not have been terminated as provided therein.

Certain of the conditions described in (c) through (j) may be waived in whole or in part by BCE and/or Nortel Networks as applicable.

Upon the foregoing conditions being fulfilled or waived, it is anticipated that the Articles of Arrangement will be filed with the Director under the CBCA in order that the Director may issue the Certificate of Arrangement to give effect to the Arrangement. Simultaneously, the various other documents necessary to consummate the transactions contemplated under the Arrangement Agreement will be executed and delivered. Subject to the foregoing, it is currently anticipated that the Effective Date will occur on or about May 1, 2000. The Arrangement Agreement provides that it will terminate without any further action by the parties if the Effective Date does not occur on or before June 1, 2000.

In the event that the Arrangement is not approved by the BCE Common Shareholders, the Nortel Networks Common Shareholders or the Court, or that the other conditions precedent to the Arrangement are not fulfilled or waived, the Arrangement will not proceed.

Other Terms of the Arrangement Agreement

In addition to setting out the steps leading up to the Arrangement and the Plan of Arrangement and the conditions precedent to its completion, all as detailed above, the Arrangement Agreement also contains customary representations

and warranties by each of the parties, including corporate, legal and other matters relating to their respective affairs and to the Arrangement, and includes covenants by each of the parties to do all such things as may reasonably be required to carry out the Arrangement and to use all commercially reasonable efforts to fulfill the conditions precedent.

In the Arrangement Agreement, each of BCE, Nortel Networks and New Nortel has covenanted not to take certain actions which could have an adverse effect on the Tax Rulings and to fulfill all representations and undertakings made by them, respectively, to the CCRA or provincial tax authorities. Under the Arrangement Agreement, BCE on the one hand, and Nortel Networks or New Nortel, on the other hand, indemnifies the other against losses the indemnified party suffers as a consequence of a breach by BCE, on the one hand, or Nortel Networks or New Nortel, on the other hand, of a representation or covenant. No indemnification is available to any of the parties in circumstances, which are considered by BCE and Nortel Networks to be remote, where the tax deferral in favour of BCE and New Nortel afforded by the Tax Rulings is disallowed due to an acquisition of control of New Nortel following the implementation of the Arrangement that is part of the same series of transactions as the “butterfly” reorganization in the Arrangement and that is not within the control of New Nortel.

BCE has agreed to indemnify Nortel Networks and New Nortel in respect of certain adverse income tax consequences relating to the transactions implemented by the Arrangement. The Tax Rulings confirm that, based upon the disclosure in the Tax Rulings, such transactions will be effected on a tax-deferred basis for Nortel Networks and New Nortel. Each of BCE, Nortel Networks and New Nortel believes that it can rely on the Canadian Federal Tax Ruling and that all of the conditions or terms of the Canadian Federal Tax Ruling will be satisfied so that, as a result, for Canadian federal income tax purposes, the transactions implemented by the Arrangement will be effected on a tax deferred basis for Canadian resident BCE Common Shareholders and Canadian resident Nortel Networks Common Shareholders and for BCE, Nortel Networks and New Nortel themselves.

The transaction costs incurred by the parties to the Arrangement, other than filing fees with regulatory and self-regulatory authorities, are to be borne by BCE subject, however, to a limitation of US\$25 million on BCE's obligation to reimburse such expenses incurred by New Nortel and Nortel Networks. In addition, BCE is to pay its own filing fees with regulatory or self-regulatory authorities and 50% of those incurred by New Nortel and Nortel Networks. The total of transaction costs (including filing fees and financial advisory, accounting, legal and transfer agent fees and the printing and distribution of this Arrangement Circular) that BCE and Nortel Networks expect to incur with respect to the Arrangement and events leading up to the Arrangement (including the New Nortel Stock Split) is estimated to approximate \$85 million.

Shareholder Approvals

The Interim Order provides that, for the Arrangement to be implemented, the BCE Arrangement Resolution must be passed, with or without variation, by at least two-thirds of the votes cast thereon by BCE Common Shareholders present in person or voting by proxy at the BCE Meeting.

The Interim Order further provides that, for the Arrangement to be implemented, the Nortel Networks Arrangement Resolution must be passed, with or without variation, by at least two-thirds of the votes cast thereon by the Nortel Networks Common Shareholders present in person or voting by proxy at the Nortel Networks Meeting.

Regulatory Approvals

Policy 9.1 (“Policy 9.1”) of the Ontario Securities Commission (the “OSC”) and Policy Q-27 (“Policy Q-27”) of the Commission des valeurs mobilières du Québec (the “CVMQ”) apply to certain transactions, including “related party transactions”. Those policies require that, unless an exemption is available, a corporation that proposes to carry out a material related party transaction must arrange to have an independent valuation of the securities and any non-cash consideration that are the subject of the transaction prepared and disclosed to security holders. Those policies also require that, unless an exemption is available, a corporation that proposes to carry out a material related party transaction must obtain the approval of its “minority” shareholders in addition to any other approval required at law.

Although it is unclear whether the Arrangement is a related party transaction within the meaning of Policy 9.1 and Policy Q-27, Nortel Networks applied to the Director of the OSC and the Executive Director of the CVMQ for exemptive relief from the valuation and minority approval requirements of these policies. Nortel Networks received a letter dated March 10, 2000 from the staff of the OSC confirming that the staff will not initiate regulatory intervention by the OSC solely because no valuation or minority approval will be obtained in connection with the Arrangement. In

addition, Nortel Networks has been advised that the Executive Director of the CVMQ has rendered a decision dated March 10, 2000 exempting the Arrangement from the valuation and minority approval requirements of Policy Q-27.

Court Approval

The Arrangement requires Court approval under the CBCA. The court proceeding necessary to obtain that approval was commenced by Notice of Application in the Ontario Superior Court of Justice. The Notice of Application is set forth in Annex D to this Arrangement Circular. Prior to the mailing of this Arrangement Circular, the Interim Order was granted providing for the calling and holding of the BCE Meeting and the Nortel Networks Meeting and certain other procedural matters. A copy of the Interim Order is set forth in Annex E to this Arrangement Circular.

Following approval of the Arrangement by BCE Common Shareholders and Nortel Networks Common Shareholders, an application will be made to the Court for the Final Order, which application has been scheduled to be heard at 4:00 p.m. (Toronto time) on April 28, 2000 at 8th floor, 393 University Avenue, Toronto, Ontario. The Court in hearing the motion for the Final Order will consider, among other things, the fairness and reasonableness of the Arrangement. The Court may approve the Arrangement either as proposed or as amended in any manner the Court may direct, subject to compliance with such terms and conditions, if any, as the Court thinks fit. At the hearing in respect of the Final Order, any BCE Common Shareholder, Nortel Networks Common Shareholder and any other interested party who wishes to participate or to be represented or to present evidence or argument may do so, subject to filing a notice of appearance on or before April 19, 2000 and satisfying certain other requirements as set out in the Interim Order.

The Final Order will constitute a basis for an exemption from certain requirements of the U.S. Securities Act with respect to the securities of New Nortel issued pursuant to the Arrangement.

EFFECTS OF THE TRANSACTION

Relationship of BCE and New Nortel After the Transaction

Following the Effective Date, Nortel Networks and BCE expect that they and their affiliates will continue to deal in the ordinary course of business. During the year ended December 31, 1999, approximately five percent of Nortel Networks' consolidated gross revenues resulted from sales to BCE subsidiary and associated companies, including approximately three percent resulting from sales to Bell Canada.

Four directors of Nortel Networks, Jean Monty, Richard Currie, Ralph Barford and Lynton Wilson, are also directors of BCE and Mr. Monty is also a director of Bell Canada. One of the directors of New Nortel, Mr. Wilson, is also a director of BCE. Mr. Barford will not be standing for re-election as a director of Nortel Networks at the Nortel Networks Meeting. Mr. Wilson will not be standing for re-election as a director of BCE at the BCE Meeting. In the event that the BCE Arrangement Resolution and the Nortel Networks Arrangement Resolution are adopted and the Arrangement proceeds, Messrs. Currie and Monty have advised that they intend to resign as directors of Nortel Networks.

Messrs. Monty and Wilson and Robert Brown are also directors of Bell Canada International Inc. ("BCII"), a 74 percent-owned subsidiary of BCE whose common shares are publicly traded in Canada and the United States. On February 17, 1999, Nortel Networks purchased \$150 million of 6.5% Convertible Unsecured Subordinated Debentures of BCII due February 15, 2002 (the "BCII Debentures"). On January 21, 2000, Nortel Networks sold the BCII Debentures to a third party. BCII and Nortel Networks have entered into a cooperation agreement (the "Cooperation Agreement") pursuant to which BCII is required to invest the proceeds from the issuance of the BCII Debentures in a wholly-owned subsidiary of BCII ("Holdco") for further investment by Holdco in selected high-growth segments of the international telecommunications industry. Under the terms of the Cooperation Agreement, BCII will, except to the extent that it cannot legally do so, generally refer all new telecom investment opportunities to Holdco. Upon any such referral, Nortel Networks will have the right to approve or reject the investment by Holdco in such project. Contemporaneously with any investment by Holdco in a telecom project, BCII (and any affiliate other than Holdco) together with any one or more third party investors brought to such project by BCII (collectively the "BCII Group") is required to invest, directly or indirectly, an amount equal to 45 percent of the aggregate amount invested in such project by Holdco and the BCII Group. With respect to those investment opportunities in which Nortel Networks agrees to participate, the Cooperation Agreement provides that Nortel Networks will be a preferred equipment supplier and that it will provide competitive equipment pricing and vendor financing. The Cooperation Agreement will terminate upon

the earliest of: (i) the redemption, conversion or maturity of the BCII Debentures; (ii) the date on which all of the proceeds from the issuance of the BCII Debentures and the funds required to be invested, directly or indirectly, in Holdco and/or in the relevant project by the BCII Group have been committed; or (iii) the mutual agreement of Nortel Networks and BCII.

Stock Exchange Listings of New Nortel Common Shares and BCE Common Shares

Nortel Networks, on behalf of New Nortel, has applied to have the New Nortel Common Shares listed on the TSE (symbol NT) pursuant to a substitutional listing and will apply to have the New Nortel Common Shares listed on the NYSE (symbol NT) pursuant to a technical original listing. It is a condition to the Arrangement becoming effective that the New Nortel Common Shares to be issued pursuant to the Arrangement, be approved for listing on the TSE and NYSE subject to normal listing requirements of such exchanges. Following the Effective Time, New Nortel will own 100% of the Nortel Networks Common Shares, which will no longer be listed on the TSE or NYSE.

The Arrangement will not alter the current listings of the BCE Common Shares on the TSE and the NYSE.

Resale of New Nortel Common Shares

Canada

Application has been made for certain regulatory approvals or waivers from the Canadian securities administrators to ensure that the New Nortel Common Shares after the Arrangement will be as freely tradeable in or into Canada as are the Nortel Networks Common Shares currently. Assuming such approvals or waivers are obtained (and each of BCE and Nortel Networks believe that they will be obtained), New Nortel Common Shares issued pursuant to the Arrangement or upon the exercise of the New Nortel Stock Options assumed by New Nortel by reason of the Arrangement or upon the exercise of the New Nortel/BCE Options will be freely tradeable in or into Canada through appropriately registered dealers provided the following conditions (among others) are met at the time of such transaction: (i) the selling shareholder does not hold (alone or in combination with others) more than 20% of the outstanding voting securities of New Nortel and does not otherwise hold a sufficient number of any securities of New Nortel to affect materially the control of New Nortel; (ii) if the selling shareholder is in a “special relationship” (as defined below) with New Nortel, the selling shareholder has reasonable grounds to believe that New Nortel is not in default of any requirement under applicable Canadian securities laws; (iii) certain disclosures are made to the applicable Canadian securities regulatory authorities (which New Nortel will either make promptly following the Effective Time or at such other times as such disclosures are required to be made); (iv) no unusual effort is made to prepare the market or create a demand for the New Nortel Common Shares; and (v) no extraordinary commission or consideration is paid in respect of the transaction in the New Nortel Common Shares.

For the above purposes, a selling shareholder is in a “special relationship” with New Nortel if, among other things, the selling shareholder is:

- (a) a director, officer or employee of New Nortel;
- (b) a director or senior officer of a subsidiary of New Nortel, including Nortel Networks;
- (c) a person or company who beneficially owns, directly or indirectly, or exercises control or direction over, voting securities carrying more than 10% of the voting rights attached to all voting securities of New Nortel; or
- (d) a director or senior officer of a company referred to in (c) above.

United States

New Nortel Common Shares issued to a BCE Common Shareholder or a Nortel Networks Common Shareholder pursuant to the Arrangement may be resold without restriction under the U.S. Securities Act, except for New Nortel Common Shares issued to any person who is an affiliate of New Nortel following consummation of the Arrangement or who was an affiliate of Nortel Networks or BCE prior to consummation of the Arrangement. Shareholders who are affiliates of New Nortel after consummation of the Arrangement may publicly sell New Nortel Common Shares in the United States only in compliance with the restrictions of Rule 144 under the U.S. Securities Act. Shareholders who are not affiliates of New Nortel but were affiliates of BCE or Nortel Networks prior to consummation of the Arrangement may publicly sell New Nortel Common Shares in the United States following consummation of the Arrangement only in compliance with the restrictions of Rule 145 under the U.S. Securities Act. For these purposes, an “affiliate” is any

person that directly or indirectly controls, or is controlled by or is under common control with New Nortel, Nortel Networks or BCE, as the case may be. Holders who may be affiliates for these purposes should consult their own legal advisors prior to the sale of New Nortel Common Shares in the United States.

New Nortel Common Shares issuable upon exercise of New Nortel Stock Options will be registered under the U.S. Securities Act through the filing of a registration statement on Form S-8. Shares so registered, when issued upon exercise of such options (other than shares issued to any affiliate of New Nortel), will be eligible to be resold publicly in the United States without restriction. Nortel Networks currently expects that the necessary registration statement will become effective concurrently with the Arrangement, and that holders of New Nortel Stock Options will be able to exercise such options for freely tradeable New Nortel Common Shares as soon as the Arrangement becomes effective.

New Nortel Common Shares issuable upon exercise of New Nortel/BCE Options will be registered under the U.S. Securities Act through the filing of a registration statement either on Form S-8 or on Form S-3. Shares so registered, when issued upon exercise of such options (other than shares issued to any affiliate of New Nortel), will be eligible to be resold publicly in the United States without restriction. A registration statement on Form S-8 would be effective immediately upon filing with the U.S. Securities and Exchange Commission (the "SEC"). If Form S-8 is available, Nortel Networks currently expects that the necessary registration statement will become effective concurrently with the Arrangement, and that holders of New Nortel/BCE Options will be able to exercise such options for freely tradeable New Nortel Common Shares as soon as the Arrangement becomes effective. By contrast, a registration statement on Form S-3 would be subject to SEC review before it becomes effective. Accordingly, there can be no assurance that a Form S-3 registration statement would be effective concurrently with the Arrangement, and there is a risk, if use of Form S-3 is necessary, that holders of New Nortel/BCE Options would not be able to exercise such options for freely tradeable New Nortel Common Shares until some time after the Arrangement becomes effective. Nortel Networks has requested confirmation from the SEC that Form S-8 may be used for these purposes. Such request is currently pending. In the alternative, Nortel Networks will seek approval of proposed arrangements that would permit the registration statement on Form S-3 to become effective on the same day as the Arrangement becomes effective.

Distribution of New Nortel Share Certificates

The Record Date will determine (a) the BCE Common Shareholders who will be entitled to receive certificates representing the New Nortel Common Shares distributed to BCE Common Shareholders as a result of the Arrangement and (b) the New Nortel Common Shareholders who will be entitled to receive certificates representing New Nortel Common Shares resulting from the New Nortel Stock Split.

From the Effective Date to the Record Date, share certificates representing BCE Common Shares will represent both BCE Common Shares and New Nortel Common Shares issued to BCE Common Shareholders pursuant to the Arrangement. No new share certificates will be issued for BCE Common Shares.

From and after the Effective Date, share certificates representing Nortel Networks Common Shares will represent New Nortel Common Shares issued to Nortel Networks Public Shareholders pursuant to the Arrangement. No new certificates will be issued for such New Nortel Common Shares.

As soon as practicable after the Record Date, there will be sent to (a) all BCE Common Shareholders of record at the close of business on the Record Date certificates representing the post New Nortel Stock Split number of New Nortel Common Shares owned by such shareholders and (b) to all New Nortel Common Shareholders of record at the close of business on the Record Date certificates representing the additional New Nortel Common Shares held by them as a result of the New Nortel Stock Split.

BCE Preferred Shares

By virtue of the Arrangement, each BCE Preferred Share issued and outstanding prior to the Effective Time will, following the Effective Time, be an identically denominated series having terms and conditions identical to the terms and conditions set out in the Articles of BCE immediately prior to the Effective Time.

Following the announcements of each of the Arrangement, the Teleglobe Acquisition and the bid for CTV, Canadian Bond Rating Service and Dominion Bond Rating Service, credit agencies which rate the BCE Preferred Shares, reaffirmed the existing credit ratings of the BCE Preferred Shares.

At a meeting of the holders of the \$1.60 Cumulative Redeemable First Preferred Shares, Series P (the “Series P Preferred Shares”) of BCE held on March 14, 2000, holders of Series P Preferred Shares passed a special resolution to amend the provisions governing the Series P Preferred Shares in a manner desirable in order to facilitate the Arrangement. The principal effects of the amendment are to remove the right of holders to convert Series P Preferred Shares into BCE Common Shares and to defer for a period of three months the date on which the Series P Preferred Shares become redeemable at the option of BCE. Articles of amendment reflecting these changes were filed on March 14, 2000.

Nortel Networks Preferred Shares and Indebtedness

The Nortel Networks Preferred Shares and indebtedness outstanding prior to the Effective Date will remain as preferred shares and debt of Nortel Networks. The Nortel Networks Series 5 Shares and the Nortel Networks Series 7 Shares will continue to be listed on the TSE. The Nortel Networks Series 4 Shares will continue to be listed on the Canadian Venture Exchange.

INCOME TAX CONSIDERATIONS

Canadian Advance Tax Rulings

The respective obligations of BCE and Nortel Networks to complete the Arrangement are conditional upon the receipt of the Tax Rulings. The Tax Rulings have been received and confirm, by way of ruling or opinion, that based on the current provisions of the Tax Act and the *Taxation Act* (Québec) and proposals to amend such Acts the transactions as disclosed will be treated for purposes of the Tax Act and the *Taxation Act* (Québec) as resulting in a “butterfly” reorganization with no current Canadian federal or Québec income tax being imposed in respect thereof upon any of BCE, Nortel Networks, New Nortel or, in general, their shareholders resident in Canada. Advance income tax rulings are given in respect of provisions of the Tax Act as they exist at the time the relevant ruling is given and are binding upon the CCRA, provided the transactions are undertaken as disclosed to the CCRA. Opinions given by the CCRA are non-binding and are given in respect of draft legislation to amend the Tax Act. No assurance can be given that any proposals to amend tax legislation will become law as proposed, although it would be highly unlikely for such tax proposals not to become law. Similar rules apply to rulings and opinions provided by the Ministère du Revenu (Québec).

Certain Canadian Federal Income Tax Considerations

In the opinion of Osler, Hoskin & Harcourt LLP, special tax counsel to BCE, in respect of the BCE Common Shareholders, and Ogilvy Renault, counsel to Nortel Networks and New Nortel, in respect of the Nortel Networks Public Shareholders, the following summary fairly describes the principal Canadian federal income tax considerations relating to the Arrangement and generally applicable to BCE Common Shareholders or Nortel Networks Common Shareholders, in each case who at all relevant times, for purposes of the Tax Act, hold such shares as capital property and deal with BCE, Nortel Networks and New Nortel at arm’s length.

BCE Common Shares and Nortel Networks Common Shares will each generally be considered to be capital property to a shareholder thereof unless any such shares are held in the course of carrying on a business of buying and selling shares or such shares are acquired in a transaction considered to be an adventure in the nature of trade. Certain shareholders who are resident in Canada and who might not otherwise be considered to hold such shares as capital property may be entitled to obtain such qualification by making the irrevocable election provided by subsection 39(4) of the Tax Act. Shareholders who do not hold their shares as capital property should consult their own tax advisors regarding their particular circumstances. Certain “financial institutions”, as defined in the Tax Act (including certain financial institutions, registered securities dealers and corporations controlled by one or more of the foregoing), will be precluded from holding BCE Common Shares and Nortel Networks Common Shares as capital property for purposes of the Tax Act pursuant to certain rules in the Tax Act relating to securities held by financial institutions. This summary does not address these rules, and shareholders that are “financial institutions” should consult their own tax advisors with respect to the tax consequences to them of the application of these rules.

This summary is based on the current provisions of the Tax Act, the regulations under the Tax Act (the “Regulations”) in force as of the date of this Arrangement Circular, and counsel’s understanding of the current published administrative and assessing practices of the CCRA in effect as of the date of this Arrangement Circular. BCE and Nortel Networks have received the Canadian Federal Tax Ruling confirming certain of the tax consequences described herein and certain other matters.

This summary takes into account specific proposals to amend the Tax Act and the Regulations publicly announced by or on behalf of the Minister of Finance (Canada) or such proposals that are otherwise publicly available prior to the date of this Arrangement Circular (the “Tax Proposals”). There is no certainty that the Tax Proposals will be enacted in the form proposed, if at all. This summary is not exhaustive of all possible Canadian federal income tax considerations and, except for the Tax Proposals, does not otherwise take into account or anticipate any changes in law or administrative practice whether by legislative, governmental, or judicial action or decision, nor does it take into account provincial, territorial or foreign tax considerations, which may differ significantly from the Canadian federal income tax considerations described in this Arrangement Circular.

A BCE Common Shareholder who acquired or was deemed to have acquired BCE Common Shares prior to 1972, or acquired or is deemed to have acquired such shares in one or more non-arm’s length transactions from a person who held such shares at any time prior to 1972, should consult his or her own tax advisors as to the impact of certain transitional rules on the following description of the Canadian federal income tax consequences to BCE Common Shareholders. The transitional rules are not considered below.

This summary is of a general nature only and is not intended to be, nor should it be construed to be, legal, business, or tax advice to any particular BCE Common Shareholder or Nortel Networks Common Shareholder, and no representations with respect to the income tax consequences to any particular BCE Common Shareholder or Nortel Networks Common Shareholder are made. Accordingly, BCE Common Shareholders and Nortel Networks Common Shareholders should consult their own tax advisors with respect to their particular circumstances.

Certain steps of the Plan of Arrangement may have tax consequences to BCE Common Shareholders and Nortel Networks Common Shareholders. These are discussed below.

BCE Common Shareholders Resident in Canada

The following portion of the summary is generally applicable to a BCE Common Shareholder who, for purposes of the Tax Act and any relevant tax treaty or convention, is resident or is deemed to be resident in Canada at all relevant times.

Amalgamation of 3263207 and BCE

On the amalgamation of 3263207 and BCE, which occurs as part of the Arrangement, a BCE Common Shareholder will realize neither a capital gain nor a capital loss as a result of the disposition of his or her BCE Common Shares and the acquisition by him or her of new BCE Common Shares and BCE Class B Shares. The aggregate cost to a BCE Common Shareholder of the BCE Common Shares and BCE Class B Shares resulting from the amalgamation will be equal to the aggregate adjusted cost base of the BCE Common Shares to that BCE Common Shareholder immediately before the amalgamation. The adjusted cost base of a BCE Common Shareholder’s BCE Common Shares will be allocated between the holder’s new BCE Common Shares and BCE Class B Shares. Such allocation will be based on the relative fair market value of such shares immediately after the amalgamation and may well not be reflective of the relative trading prices of the BCE Common Shares and the New Nortel Common Shares after the Arrangement. BCE Common Shareholders will be advised as to BCE’s proposed proportionate allocation following the Effective Date. Such allocation is not binding upon the CCRA or any particular BCE Common Shareholder. Generally, the allocation made by BCE Common Shareholders should be consistent with that made by BCE.

The Exchange of BCE Class B Shares for New Nortel Common Shares

Except as noted below, a BCE Common Shareholder will not realize a capital gain or a capital loss on the exchange of the holder’s BCE Class B Shares for New Nortel Common Shares. A BCE Common Shareholder will be considered to have acquired the New Nortel Common Shares, including any fractional shares allocated to the holder, at a cost to the BCE Common Shareholder equal to the adjusted cost base to the BCE Common Shareholder of such holder’s BCE Class B Shares immediately before the exchange, except as noted below.

A BCE Common Shareholder may choose to recognize a capital gain or a capital loss on the exchange of the BCE Class B Shares by including the amount of capital gain or capital loss, otherwise determined, in computing such holder’s income for the taxation year in which such exchange occurs. A BCE Common Shareholder who chooses to realize a gain or loss in this manner will realize a capital gain (or capital loss) to the extent that such holder’s proceeds of disposition, net of any reasonable costs of disposition, exceed (or are less than) the adjusted cost base of the holder’s

BCE Class B Shares so exchanged. For the purpose of computing such capital gain or capital loss, a BCE Common Shareholder will be considered to have disposed of the BCE Class B Shares for proceeds of disposition equal to the fair market value of the New Nortel Common Shares received on the exchange.

If the BCE Common Shareholder is a corporation, the amount of any capital loss arising from the disposition of the BCE Class B Shares may be reduced by the amount of dividends received or deemed to have been received by the BCE Common Shareholder on the BCE Common Shares to the extent and under the circumstances prescribed by the Tax Act. Analogous rules apply to a partnership or trust of which a corporation, partnership or trust is a member or beneficiary.

Under the current provisions of the Tax Act, three-quarters of any capital gain (the “taxable capital gain”) realized by a BCE Common Shareholder will be included in the holder’s income for the year of disposition, and three-quarters of any capital loss so realized (the “allowable capital loss”) may be deducted by the BCE Common Shareholder against taxable capital gains for the year of disposition. Pursuant to the Tax Proposals, subject to certain transitional rules which apply in certain limited circumstances, two-thirds of any capital gain (or capital loss) realized by a BCE Common Shareholder after February 27, 2000 would be included in computing the holder’s income for the year of disposition as a taxable capital gain (or deducted as an allowable capital loss). Subject to the detailed rules in the Tax Act and the Tax Proposals, any excess of allowable capital losses over taxable capital gains of the holder may be carried back up to three taxation years or forward indefinitely and deducted against net taxable capital gains in those other years.

Capital gains realized by an individual or certain trusts may result in a liability to pay alternative minimum tax under the Tax Act. A BCE Common Shareholder that is a Canadian-controlled private corporation (as defined in the Tax Act) may be liable to pay an additional refundable tax of 6²/₃% on investment income, including amounts in respect of taxable capital gains.

Amalgamation of New Nortel and Stockco

On the amalgamation of New Nortel and Stockco, which occurs as part of the Arrangement, a BCE Common Shareholder will realize neither a capital gain nor a capital loss as a result of the disposition of such BCE Common Shareholder’s New Nortel Common Shares and the acquisition by such BCE Common Shareholder of New Nortel Common Shares. The aggregate cost to a BCE Common Shareholder of the New Nortel Common Shares resulting from the amalgamation will be equal to the aggregate adjusted cost base of the New Nortel Common Shares to that BCE Common Shareholder immediately before the amalgamation.

Split of New Nortel Common Shares

Holders of New Nortel Common Shares will not realize a gain or loss as a result of the split of New Nortel Common Shares.

Disposition of Fractional Shares

A BCE Common Shareholder will realize a capital gain (or capital loss) on the sale by Montreal Trust Company of Canada of the fractional New Nortel Common Shares allocated to the BCE Common Shareholder on the exchange of the BCE Class B Shares for New Nortel Common Shares (after taking into account the New Nortel Stock Split) to the extent that such holder’s proceeds of disposition from such sale, net of any reasonable costs of disposition, exceed (or are less than) the adjusted cost base to such holder of the fractional New Nortel Common Shares allocated to such holder. The treatment of capital gains and losses is discussed above under “The Exchange of BCE Class B Shares for New Nortel Common Shares”.

Dissenting BCE Shareholders

A Dissenting BCE Shareholder who is the beneficial owner of BCE Common Shares and who receives payment from BCE equal to the fair value of the Dissenting BCE Shareholder’s BCE Common Shares will be considered to have disposed of the holder’s shares for proceeds of disposition equal to the amount received by the Dissenting BCE Shareholder less the amount of any interest awarded by a court and thus may realize a capital gain or loss. The treatment of capital gains and losses is discussed above. Any interest awarded to the Dissenting BCE Shareholder by a court will be required to be included in the Dissenting BCE Shareholder’s income for purposes of the Tax Act.

Nortel Networks Common Shareholders Resident in Canada

The following portion of the summary is generally applicable to a Nortel Networks Common Shareholder who, for purposes of the Tax Act and any relevant tax treaty or convention, is resident or is deemed to be resident in Canada at all relevant times.

The Exchange of Nortel Networks Common Shares for New Nortel Common Shares

The Canadian federal income tax consequences of an exchange of Nortel Networks Common Shares for New Nortel Common Shares are the same as discussed above in the opinions relating to the exchange of BCE Class B Shares for New Nortel Common Shares by BCE Common Shareholders. Such discussion applies, with necessary modifications, equally to Nortel Networks Common Shareholders.

Amalgamation of New Nortel and Stockco

The Canadian federal income tax consequences of the amalgamation of New Nortel and Stockco to holders of New Nortel Common Shares are the same as discussed above in the opinions relating to BCE Common Shareholders. Such discussion applies, with necessary modifications, equally to Nortel Networks Common Shareholders.

Split of New Nortel Common Shares

The Canadian federal income tax consequences of the split of New Nortel Common Shares to holders of New Nortel Common Shares are the same as discussed above in the opinions relating to BCE Common Shareholders. Such discussion applies, with necessary modifications, equally to Nortel Networks Common Shareholders.

Dissenting Nortel Networks Shareholders

A Dissenting Nortel Networks Shareholder who is the beneficial owner of Nortel Networks Common Shares, who dissents in respect of the Arrangement and who receives payment from Nortel Networks equal to the fair value of such Dissenting Nortel Networks Shareholder's Nortel Networks Common Shares will be deemed to have received a dividend equal to the amount by which the payment, net of any interest awarded by a court, exceeds the paid-up capital of such shares, and such deemed dividend (to the extent subsection 55(2) of the Tax Act does not apply to such dividend) will reduce the proceeds of disposition for purposes of the Tax Act of such shares. A Dissenting Nortel Networks Shareholder also will realize a capital gain (or capital loss) to the extent that the proceeds of disposition for purposes of the Tax Act of such shares, as reduced by the deemed dividend discussed above, net of any costs of disposition, exceed (or are less than) such Dissenting Nortel Networks Shareholder's adjusted cost base of such shares. As noted above, any capital loss otherwise determined for a Nortel Networks Common Shareholder which is a corporation may be reduced by dividends received on such shares, including any such deemed dividend, to the extent and under the circumstances described in the Tax Act. Following the Effective Date, Dissenting Nortel Networks Shareholders will be advised of the estimated paid-up capital for purposes of the Tax Act of a Nortel Networks Common Share immediately before the Effective Time. The treatment of capital gains and losses is discussed above under "The Exchange of BCE Class B Shares for New Nortel Common Shares".

The income tax treatment accorded to any deemed dividend received by a Dissenting Nortel Networks Shareholder will be that normally accorded to taxable dividends received by such Dissenting Nortel Networks Shareholder on shares of a taxable corporation resident in Canada. In respect of certain corporations, subsection 55(2) of the Tax Act provides that where a corporate holder of shares receives a dividend in specified circumstances, all or part of such dividend may be treated as a capital gain from the disposition of capital property. Nortel Networks Common Shareholders which are corporations should consult their own tax advisors for advice with respect to the potential application of these provisions.

Any interest awarded to the Dissenting Nortel Networks Shareholder by a court will be required to be included in the Dissenting Nortel Networks Shareholder's income for purposes of the Tax Act.

BCE Common Shareholders and Nortel Networks Common Shareholders Not Resident in Canada

The following portion of the summary is generally applicable to a holder of BCE Common Shares or Nortel Networks Common Shares who, for purposes of the Tax Act and any relevant tax treaty or convention, at all relevant times, has not been and will not be resident or deemed to be resident in Canada, does not use or hold, and is not deemed to use or hold, such shares in connection with carrying on a business in Canada and to whom such shares do not otherwise constitute "taxable Canadian property" (a "Non-Resident Shareholder"). This summary assumes that the

BCE Common Shares resulting from the amalgamation of BCE and 3263207 will be listed on a prescribed stock exchange at the time of such amalgamation, that the New Nortel Common Shares will be listed on a prescribed stock exchange at the time of their issuance and that the New Nortel Common Shares resulting from the amalgamation of New Nortel and Stockco will be listed on a prescribed stock exchange at the time of such amalgamation. This summary does not apply to a non-resident that is an insurer carrying on business in Canada and elsewhere.

Generally, BCE Common Shares, Nortel Networks Common Shares and New Nortel Common Shares will not constitute taxable Canadian property to a Non-Resident Shareholder provided such shares are listed on a prescribed stock exchange (which currently includes the TSE) unless, at any time during the five year period immediately preceding the Effective Date, not less than 25% of the issued shares of any class or series of the capital stock of BCE, Nortel Networks or New Nortel, as the case may be, were owned by (or under option to) the Non-Resident Shareholder, persons with whom the Non-Resident Shareholder did not deal at arm's length or the Non-Resident Shareholder together with all such persons.

Non-Resident Shareholders Participating in the Arrangement

A Non-Resident Shareholder will not be subject to tax under the Tax Act as a result of the Arrangement, except as noted below.

Dissenting Non-Resident BCE Shareholders

A Non-Resident Shareholder who is the beneficial owner of BCE Common Shares and who dissents in respect of the Arrangement (a "Dissenting Non-Resident BCE Shareholder") will be subject to the same income tax considerations as those above with respect to Dissenting BCE Shareholders resident in Canada, except that the Dissenting Non-Resident BCE Shareholder will not be subject to tax under the Tax Act in respect of the capital gains realized on the disposition of his or her BCE Common Shares. If a Dissenting Non-Resident BCE Shareholder receives interest consequent upon the exercise of dissent rights, such amount will be subject to Canadian withholding tax at the rate of 25%. Such rate of withholding may be reduced under the provisions of an applicable tax treaty or convention. For United States residents, the treaty reduced rate generally applicable is 10%.

Dissenting Non-Resident Nortel Shareholders

A Non-Resident Shareholder who is the beneficial owner of Nortel Networks Common Shares and who dissents in respect of the Arrangement (a "Dissenting Non-Resident Nortel Shareholder") and who becomes entitled to a payment equal to the fair value of such Dissenting Non-Resident Nortel Shareholder's Nortel Networks Common Shares will be considered to have disposed of such shares for an amount equal to the amount of such entitlement, net of any interest awarded by a court. Upon payment of such entitlement, a Dissenting Non-Resident Nortel Shareholder will be deemed to have received a dividend equal to the amount by which the amount of such entitlement exceeds the paid-up capital of such shares. Following the Effective Date, Dissenting Non-Resident Nortel Shareholders will be advised of the estimated paid-up capital for purposes of the Tax Act of a Nortel Networks Common Share immediately before the Effective Time. Under the Tax Act, dividends paid, or deemed to be paid, by a Canadian corporation to a non-resident are subject to withholding tax at the rate of 25%, but such rate may be reduced under the provisions of any tax treaty between Canada and the country of the Dissenting Non-Resident Nortel Shareholder's residence. For United States residents, the treaty-reduced rate generally applicable is 15%. If a Dissenting Non-Resident Nortel Shareholder receives interest consequent upon the exercise of dissent rights, such amount will be subject to Canadian withholding tax at the rate of 25%. Such rate may be reduced under the provisions of an applicable tax treaty or convention. For United States residents, the treaty reduced rate generally applicable is 10%.

Certain United States Federal Income Tax Considerations

The following discussion summarizes the principal U.S. federal income tax consequences of the Arrangement to BCE Common Shareholders and Nortel Networks Common Shareholders that are U.S. Holders and that hold such shares as capital assets. This discussion is based on the Internal Revenue Code, applicable Treasury regulations, administrative interpretations and court decisions as in effect as of the date of this Arrangement Circular, all of which may change, possibly with retroactive effect. No ruling has been sought from the IRS with respect to the Arrangement. There can be no assurance that the IRS and/or the courts would not adopt a view contrary to the tax consequences summarized in this discussion. "U.S. Holders" are citizens or residents of the United States, U.S. domestic

corporations, or persons or entities that are otherwise subject to U.S. federal income tax on a net income basis in respect of their investment in BCE Common Shares or Nortel Networks Common Shares.

This discussion is intended to provide only a general summary, and is not a complete analysis or description of all potential U.S. federal income tax consequences of the Arrangement to U.S. Holders of BCE Common Shares or Nortel Networks Common Shares. This discussion does not address all aspects of U.S. federal income taxation that may be important to a U.S. Holder in light of that U.S. Holder's particular circumstances, or to a U.S. Holder subject to special rules, such as a financial institution or insurance company, a thrift institution, a tax-exempt organization, a dealer or broker in securities, a U.S. Holder that holds his or her BCE Common Shares or Nortel Networks Common Shares as part of a hedge, appreciated financial position, straddle or conversion transaction, or a U.S. Holder who acquired his or her BCE Common Shares or Nortel Networks Common Shares pursuant to the exercise of options or otherwise as compensation. This summary does not address the tax treatment of BCE Optionholders or holders of options to acquire Nortel Networks Common Shares. In addition, this summary does not address the tax treatment of Nortel Networks Common Shareholders who will own 5% or more of New Nortel Common Shares, measured by vote or value, either directly or indirectly through attribution rules, after the Arrangement.

Each U.S. Holder of BCE Common Shares or Nortel Networks Common Shares is strongly urged to consult his or her own tax advisor(s) to determine the particular U.S. federal, state or local income tax, foreign income tax, or other tax consequences to him or her of the transactions described in this Arrangement Circular.

The Arrangement is expected to result in significant taxable income to U.S. Holders of BCE Common Shares that receive New Nortel Common Shares. U.S. Holders of BCE Common Shares are strongly urged to consult their own tax and financial advisors and to consider, among other things, any advice that their U.S. tax advisors may furnish in determining whether or not to sell their BCE Common Shares, and, where relevant, whether to sell before the Effective Date.

U.S. Holders of BCE Common Shares Participating in the Arrangement

In the opinion of Davis Polk & Wardwell, U.S. counsel to BCE, for U.S. federal income tax purposes a U.S. Holder of BCE Common Shares will be treated as receiving a taxable distribution of the New Nortel Common Shares as a result of the Arrangement and be taxed at ordinary income rates on a dividend in the amount of the fair market value, as of the date of the distribution, of the New Nortel Common Shares received, to the extent the distribution is out of the earnings and profits ("E&P") of BCE calculated under applicable U.S. federal income tax principles. BCE expects to have E&P adequate to render all or nearly all of the distribution received by a U.S. Holder taxable as a dividend.

Assuming that the Arrangement has the U.S. federal income tax consequences described above and that the full amount of the distribution is treated as a dividend:

- A U.S. Holder of BCE Common Shares will have a tax basis in the New Nortel Common Shares received equal to the fair market value, as of the date of the distribution, of those shares.
- A U.S. Holder's holding period for the New Nortel Common Shares received will begin on the date of the distribution.
- A U.S. Holder's tax basis in his or her BCE Common Shares will not change as a result of the Arrangement.

Dissenting U.S. Holders of BCE Common Shares

For U.S. federal income tax purposes, cash received by a U.S. Holder pursuant to the exercise of a right of dissent will be treated as paid in redemption of the U.S. Holder's BCE Common Shares, except for any interest consequent upon such exercise (which will be taxed at ordinary income rates). For a U.S. Holder who does not purchase additional BCE Common Shares in connection with the Arrangement, this will generally result in the recognition of capital gain or loss for U.S. federal income tax purposes, measured by the difference between the amount of cash received (other than as interest) and the U.S. Holder's tax basis in the BCE Common Shares surrendered by the U.S. Holder. Such capital gain or loss will be long-term capital gain or loss if the U.S. Holder has held the BCE Common Shares for more than one year.

U.S. Holders of Nortel Networks Common Shares Participating in the Arrangement

In the opinion of Cleary, Gottlieb, Steen & Hamilton, U.S. counsel to Nortel Networks, based on certain representations as to factual matters by Nortel Networks and BCE, the transfer of Nortel Networks Common Shares by its shareholders to New Nortel pursuant to the Arrangement will be treated as a transaction described in Section 351 of the Internal Revenue Code. Accordingly, except as discussed below, no gain or loss will be recognized for U.S. federal income tax purposes by a U.S. Holder who exchanges its Nortel Networks Common Shares for New Nortel Common Shares. The aggregate tax basis of the New Nortel Common Shares received by a U.S. Holder of Nortel Networks Common Shares in the Arrangement will be the same as the aggregate tax basis of the Nortel Networks Common Shares surrendered by such U.S. Holder in the exchange, and the holding period of the New Nortel Common Shares received by a U.S. Holder in the exchange will include the period that the U.S. Holder held the Nortel Networks Common Shares exchanged therefor.

Dissenting U.S. Holders of Nortel Networks Common Shares

Cash received by a U.S. Holder pursuant to the exercise of a right of dissent will be treated as paid in redemption of the U.S. Holder's Nortel Networks Common Shares, except for any interest consequent upon such exercise (which will be taxed at ordinary income rates). In general, this will result in the recognition of capital gain or loss for U.S. federal income tax purposes, measured by the difference between the amount of cash received (other than interest) and the U.S. Holder's tax basis in the Nortel Networks Common Shares surrendered by the U.S. Holder. Such capital gain or loss will be long-term capital gain or loss if such Nortel Networks Common Shares have been held for more than one year at the Effective Time.

Notwithstanding the foregoing, cash received upon the exercise of a dissent right by a U.S. Holder may be treated in its entirety as taxable dividend income if, as a result of purchases of New Nortel Common Shares, Nortel Networks Common Shares or BCE Common Shares in connection with the Arrangement, the percentage ownership interest in New Nortel that is owned (directly, indirectly and by attribution) by the U.S. Holder immediately after the Arrangement is not lower than the percentage ownership interest of such U.S. Holder in Nortel Networks immediately prior to the Arrangement. For purposes of this calculation, a U.S. Holder would be deemed to own stock owned by certain family members or by related corporations, partnerships, trusts or estates.

Information Reporting and Backup Withholding for U.S. Holders of Nortel Networks Common Shares

Information reporting and backup withholding may apply to payments of dividends on or proceeds from the sale or other disposition (including a payment of cash pursuant to the exercise of a right of dissent) of the Nortel Networks Common Shares with respect to certain U.S. Holders. Such U.S. Holders generally will be subject to backup withholding at a rate of 31% unless the U.S. Holder is a corporation or other exempt recipient or provides certain certification, including a correct taxpayer identification number. Any withheld amount generally will be allowed as a credit against the U.S. federal income tax of the U.S. Holder of Nortel Networks Common Shares, provided the required information is timely filed with the IRS.

Split of New Nortel Common Shares

U.S. Holders of New Nortel Common Shares will realize no gain or loss as a result of the New Nortel Stock Split.

Residents of Jurisdictions Outside Canada or the United States

BCE Common Shareholders and Nortel Networks Common Shareholders who are resident outside Canada or the United States should consult their own tax advisors.

DIVIDENDS AND DIVIDEND REINVESTMENT PLANS

BCE Dividend Policy

Dividends will be paid on the BCE Common Shares if, as and when declared by the BCE Board. After giving effect to the Arrangement, BCE currently intends to pay an annual aggregate dividend of \$1.20 per BCE Common Share, down from \$1.36 per BCE Common Share to take into account the distribution of the Nortel Networks Common Shares to the BCE Common Shareholders. On February 23, 2000, BCE declared its first quarterly dividend of \$0.34 per BCE Common Share. Assuming the Arrangement is finalized, BCE will declare its second quarterly dividend of

\$0.30 per BCE Common Share in May 2000. Thereafter, quarterly dividends will be paid if, as and when declared by the BCE Board.

BCE Dividend Reinvestment, Purchase and Savings Plans

The Shareholder Dividend Reinvestment Plan and Stock Purchase Plan (the “DRP”) previously established by BCE to enable eligible BCE Common Shareholders to invest in BCE Common Shares by applying cash dividends and optional cash payments (not exceeding \$20,000 in a twelve-month period) will continue in effect after completion of the Arrangement. Any BCE Common Shares acquired under the DRP prior to the completion of the Arrangement would be acquired in the open market.

The Employees’ Savings Plan (1970) (the “ESP”) previously established by BCE to enable employees to acquire BCE Common Shares will continue in effect after the completion of the Arrangement. Any BCE Common Shares acquired under the ESP prior to the completion of the Arrangement would be acquired in the open market.

New Nortel Dividends

Dividends will be paid on New Nortel Common Shares if, as and when declared by the New Nortel Board. New Nortel is expected to have the same quarterly dividend as that which presently exists for Nortel Networks, adjusted for the New Nortel Stock Split. In 1999, after adjusting for a stock dividend of one Nortel Networks Common Share on each Nortel Networks Common Share issued and outstanding as of the close of business on August 17, 1999, Nortel Networks declared and paid a cash dividend in each quarter of US\$0.0375 per Nortel Networks Common Share, for a total dividend of US\$0.15 per Nortel Networks Common Share for the year.

New Nortel Dividend Reinvestment and Stock Purchase Plan

Under the Plan of Arrangement, New Nortel will assume the Nortel Networks Shareholder Dividend Reinvestment and Stock Purchase Plan, as amended, and as a result, New Nortel Common Shareholders will be entitled to reinvest dividends and invest optional cash payments for the purchase of New Nortel Common Shares. Nortel Networks Common Shareholders who are currently enrolled in the Nortel Networks Shareholder Dividend Reinvestment and Stock Purchase Plan will continue to be enrolled in such plan as assumed by New Nortel and no further action is required by any such shareholder unless they wish to change the terms of their current participation in the plan.

SELECTED FINANCIAL DATA

Pro Forma Capitalization of BCE

The following table sets forth the consolidated capitalization as at December 31, 1999 of BCE immediately before and after giving *pro forma* effect to the Arrangement. The information should be read in conjunction with the *pro forma* consolidated financial statements and related notes of BCE set out in Annex I to this Arrangement Circular.

	At December 31, 1999	At December 31, 1999
	(actual – audited) ⁽¹⁾	(pro forma – unaudited)
	(in \$ millions)	
Long-term debt (excluding current portion)	8,780	8,780
Deferred income taxes	783	852
Other long-term liabilities	1,502	1,502
Non-controlling interest	2,460	2,460
Preferred shares	1,700	1,700
Common shareholders' equity		
Common shares	6,789	6,789
Contributed surplus	997	997
Retained earnings	8,691	2,005
Currency translation adjustment	(285)	(87)
Total capitalization	<u>31,417</u>	<u>24,998</u>

(1) Up to August 31, 1998, Nortel Networks was consolidated in the financial statements of BCE. Thereafter, the equity accounting method was used by BCE to account for the investment in Nortel Networks.

BCE Selected Pro Forma Financial Information

The following table sets forth certain selected financial information of BCE for the years ended December 31, 1999 and 1998 immediately before and after giving *pro forma* effect to the Arrangement. The information should be read in conjunction with the *pro forma* consolidated financial statements and related notes of BCE set out in Annex I to this Arrangement Circular.

	Years Ended December 31,			
	1999	1999	1998	1998
	(actual – audited) ⁽¹⁾	(pro forma – unaudited)	(actual – audited) ⁽¹⁾	(pro forma – unaudited)
	(in \$ millions except per share figures)			
Operating highlights				
Operating revenues	14,214	14,214	27,207	13,579
Net earnings	5,459	5,069	4,598	1,465
Net earnings applicable to common shares	5,366	4,976	4,505	1,372
Net earnings per common share ...	8.35	7.74	7.07	2.15
Dividends				
Preferred shares	93	93	93	93
Common shares	875	772	868	766
Current assets	5,507	5,422	2,780	2,695
Total assets	36,960	30,541	32,170	25,572
Long-term debt (including current portion)	9,862	9,862	10,349	10,349

(1) Up to August 31, 1998, Nortel Networks was consolidated in the financial statements of BCE. Thereafter, the equity accounting method was used by BCE to account for the investment in Nortel Networks.

Pro Forma Capitalization of Nortel Networks and New Nortel

The following table sets forth the consolidated capitalization as at December 31, 1999 of Nortel Networks immediately before and New Nortel immediately after giving *pro forma* effect to the Arrangement.

	Nortel Networks as at December 31, 1999	New Nortel as at December 31, 1999
	(actual – audited)	(pro forma – unaudited)
	(in US\$ millions)	
Long-term debt (excluding current portion).....	\$ 1,624	\$ 1,624
Deferred income taxes	124	124
Other long-term liabilities	449	449
Minority interest	92	701
Preferred shares	609	—
Common shareholders' equity		
Common shares	10,077	10,077
Additional paid-in capital	135	135
Retained earnings	2,156	2,156
Foreign currency translation adjustment	(459)	(459)
Total capitalization	\$14,807	\$14,807

Nortel Networks Selected Financial Information

The following table sets forth certain selected financial information of Nortel Networks for the years ended December 31, 1999 and 1998. The information should be read in conjunction with the financial statements and related notes of Nortel Networks incorporated by reference herein.

	Year Ended December 31,	
	1999	1998
	(in US\$ millions except per share figures)	
Operating highlights		
Revenues	\$22,217	\$17,575
Net loss	(170)	(537)
Net loss applicable to common shares	(197)	(569)
Net loss per common share	(.15)	(.50)
Dividends		
Preferred shares	27	32
Common shares	204	178
Current assets	13,068	10,317
Total assets	22,597	19,732
Long-term debt (including current portion)	1,689	1,667

NORTEL NETWORKS HISTORICAL TRADING PRICES

The Nortel Networks Common Shares are listed on the TSE and NYSE. The following tables summarize the market price ranges and volumes of trading in Nortel Networks Common Shares on the TSE and the NYSE for the periods indicated (adjusted for stock splits and stock dividends).

<u>TSE</u>	<u>High</u>	<u>Low</u>	<u>Volume</u> (Millions)
1997 First Quarter	26.125	20.852	78.0
Second Quarter	31.250	21.750	82.1
Third Quarter	37.352	31.938	76.0
Fourth Quarter	38.875	28.398	95.6
1998 First Quarter	46.250	28.750	88.6
Second Quarter	50.125	37.700	120.0
Third Quarter	47.450	23.125	256.0
Fourth Quarter	40.100	20.825	194.0
1999 First Quarter	48.250	38.000	190.0
Second Quarter	64.500	46.200	145.0
Third Quarter	76.200	59.600	127.0
Fourth Quarter	149.900	73.200	157.0
2000 January 2 — March 13	192.000	123.500	148.8
<u>NYSE</u>	<u>High</u>	<u>Low</u>	<u>Volume</u> (Millions)
	(US\$)		
1997 First Quarter	19.250	15.125	109.0
Second Quarter	22.750	15.532	124.0
Third Quarter	26.937	22.563	96.4
Fourth Quarter	28.469	24.767	140.0
1998 First Quarter	32.719	19.844	116.0
Second Quarter	34.625	25.687	166.0
Third Quarter	31.844	15.219	322.0
Fourth Quarter	25.844	13.406	247.0
1999 First Quarter	31.875	25.062	256.0
Second Quarter	44.000	30.719	229.0
Third Quarter	57.875	39.812	221.0
Fourth Quarter	110.000	49.562	288.0
2000 January 2 — March 13	131.938	75.500	333.7

On January 25, 2000, the last trading day preceding the public announcement of the Arrangement, the closing price of the Nortel Networks Common Shares on the TSE was \$146.00 and the NYSE was US\$108.875.

NEW NORTEL ELIGIBILITY FOR INVESTMENT IN CANADA

In the opinion of Ogilvy Renault, counsel to Nortel Networks and New Nortel, and Davies, Ward & Beck, counsel to BCE, if the Arrangement were to become effective on the date hereof, the New Nortel Common Shares would not be prohibited investments, subject to general investment provisions, limitations and restrictions and in certain cases subject to prudent investment requirements and to additional requirements relating to investment or lending policies or goals, under the following statutes:

Insurance Companies Act (Canada)

Trust and Loan Companies Act (Canada)

Pension Benefits Standards Act, 1985 (Canada)

Cooperative Credit Associations Act (Canada)

In the opinion of Ogilvy Renault, counsel to Nortel Networks and New Nortel, and Osler, Hoskin & Harcourt LLP, special tax counsel to BCE, the New Nortel Common Shares, once listed on a prescribed stock exchange in Canada, will be qualified investments under the Tax Act for trusts governed by registered retirement savings plans, registered retirement income funds, deferred profit sharing plans and registered education savings plans and may be held in such plans subject to the terms of the particular plan trust.

DISSENTING SHAREHOLDERS' RIGHTS

BCE Common Shareholders and Nortel Networks Common Shareholders are entitled to dissent from the BCE Arrangement Resolution and Nortel Networks Arrangement Resolution, respectively, in the manner provided in Section 190 of the CBCA, the Interim Order and the Plan of Arrangement. Section 190 of the CBCA is reprinted in its entirety as Annex J to this Arrangement Circular. The following summary is qualified in its entirety by the provisions of Section 190 of the CBCA, the Interim Order and the Plan of Arrangement.

Any BCE Common Shareholder or Nortel Networks Common Shareholder who dissents (a "Dissenting Shareholder") from the BCE Arrangement Resolution or Nortel Networks Arrangement Resolution, as the case may be (the relevant resolution is referred to hereinafter as the "Resolution"), will be entitled, in the event the Arrangement becomes effective, to be paid by BCE or Nortel Networks, as the case may be (the "Payor Corporation"), the fair value of the BCE Common Shares or Nortel Networks Common Shares, as the case may be (the "Dissent Shares"), held by such Dissenting Shareholder determined as at the close of business on the day before the BCE Meeting or Nortel Networks Meeting, as the case may be, or any adjournment thereof. There can be no assurance that a Dissenting Shareholder will receive consideration for his or her shares of equal value to the consideration that such Dissenting Shareholder would have received upon closing of the Arrangement.

A BCE Common Shareholder or Nortel Networks Common Shareholder, who wishes to dissent must provide to BCE or Nortel Networks, as the case may be, at or before the BCE Meeting or Nortel Networks Meeting (or any postponements or adjournments thereof), as the case may be, at the relevant address set out on page ii of this Arrangement Circular, a written objection to the Resolution (a "Dissent Notice"). The filing of a Dissent Notice does not deprive a shareholder of the right to vote; however, the CBCA provides, in effect, that a shareholder who has submitted a Dissent Notice and who votes in favour of the Resolution will no longer be considered a Dissenting Shareholder with respect to shares voted in favour of the Resolution. The CBCA does not provide, and neither BCE nor Nortel Networks will assume, that a vote against the Resolution constitutes a Dissent Notice. Under the CBCA, there is no right of partial dissent and, accordingly, a Dissenting Shareholder may only dissent with respect to all shares held by him or her on behalf of any one beneficial owner and which are registered in the name of the Dissenting Shareholder.

The Payor Corporation is required, within 10 days after adoption of the Resolution, to notify each Dissenting Shareholder that the Resolution has been adopted, but such notice is not required to be sent to any shareholder who voted for the Resolution or who has withdrawn his or her Dissent Notice. **The Plan of Arrangement provides that a Dissenting BCE Shareholder will not be permitted to withdraw his or her Dissent Notice after the Effective Time and the only right of a Dissenting BCE Shareholder, as such, after such time shall be to be paid the fair value of his or her BCE Common Shares.**

A Dissenting Shareholder must, within 20 days after the Dissenting Shareholder receives notice that the Resolution has been adopted or, if the Dissenting Shareholder does not receive such notice, within 20 days after the Dissenting Shareholder learns that the Resolution has been adopted, send to the Payor Corporation a written notice (a "Payment Demand") containing his or her name and address, the number of Dissent Shares in respect of which the Dissenting Shareholder dissented, and a demand for payment of the fair value of such shares. Within 30 days after a Payment Demand, the Dissenting Shareholder must send to the Payor Corporation's transfer agent, Montreal Trust Company (in the case of BCE) and Montreal Trust Company of Canada (in the case of Nortel Networks) at the appropriate address set out on page ii of this Arrangement Circular, the certificates representing the Dissent Shares in respect of which he or she dissented. A Dissenting Shareholder who fails to send the certificates representing the Dissent Shares in respect of which he or she dissented forfeits his or her right to make a claim under Section 190 of the CBCA. The Payor Corporation's transfer agent will endorse on share certificates received from a Dissenting Shareholder a notice that the holder is a Dissenting Shareholder and will forthwith return the share certificates to the Dissenting Shareholder.

On filing a Dissent Notice that is not withdrawn prior to the termination of the BCE Meeting or Nortel Networks Meeting, as the case may be, a Dissenting Shareholder ceases to have any rights as a shareholder, other than the right to be paid the fair value of his or her Dissent Shares as determined under Section 190 of the CBCA, except where:

- (a) in the case of a Dissenting Nortel Networks Shareholder, such Dissenting Shareholder withdraws his or her Payment Demand before Nortel Networks makes an offer to the Dissenting Shareholder;
- (b) in the case of Dissenting Nortel Networks Shareholder, Nortel Networks fails to make an offer as hereinafter described and such Dissenting Shareholder withdraws his or her Payment Demand; or

- (c) in the case of a Dissenting BCE Shareholder or a Dissenting Nortel Networks Shareholder, the directors of the relevant Payor Corporation revoke the Resolution.

In cases (a) and (b) above, Nortel Networks, and in case (c) above, the relevant Payor Corporation, shall be required to reinstate the Dissenting Shareholder's rights as a shareholder. The Plan of Arrangement provides that a Dissenting BCE Shareholder will not be permitted to withdraw his Dissent Notice after the Effective Time and the only right of a Dissenting BCE Shareholder, as such, after such time shall be to be paid the fair value of his or her BCE Common Shares.

The Payor Corporation is required, not later than seven days after the later of the Effective Date or the date on which the Payor Corporation received the Payment Demand of a Dissenting Shareholder, to send to each Dissenting Shareholder who has sent a Payment Demand to such Payor Corporation a written offer to pay ("Offer to Pay") for his or her Dissent Shares in an amount considered by the board of directors of the Payor Corporation to be the fair value thereof, accompanied by a statement showing the manner in which the fair value was determined. Every Offer to Pay, as between shares of the same class, must be on the same terms. The Payor Corporation must pay for the Dissent Shares of a Dissenting Shareholder of such Payor Corporation within 10 days after an Offer to Pay has been accepted by a Dissenting Shareholder, but any such Offer to Pay lapses if the Payor Corporation does not receive an acceptance thereof within 30 days after the Offer to Pay has been made.

If the Payor Corporation fails to make an Offer to Pay for the Dissent Shares of a Dissenting Shareholder, or if a Dissenting Shareholder fails to accept an offer that has been made, the Payor Corporation may, within 50 days after the Effective Date or within such further period as a court may allow, apply to a court to fix a fair value for the Dissent Shares of Dissenting Shareholders. If the Payor Corporation fails to apply to a court, a Dissenting Shareholder may apply to a court for the same purpose within a further period of 20 days or within such further period as a court may allow. A Dissenting Shareholder is not required to give security for costs in such an application.

Upon an application to a court, all Dissenting Shareholders of a Payor Corporation whose Dissent Shares have not been purchased by such Payor Corporation will be joined as parties and bound by the decision of the court, and such Payor Corporation will be required to notify each affected Dissenting Shareholder of the date, place and consequences of the application and of his or her right to appear and be heard in person or by counsel. Upon any such application to a court, the court may determine whether any person is a Dissenting Shareholder of such Payor Corporation who should be joined as a party, and the court will then fix a fair value for the Dissent Shares of all Dissenting Shareholders of such Payor Corporation. The final order of a court will be rendered against the Payor Corporation in favour of each Dissenting Shareholder of such Payor Corporation and for the amount of the fair value of his or her Dissent Shares as fixed by the court. The court may, in its discretion, allow a reasonable rate of interest on the amount payable to each Dissenting Shareholder from the Effective Date until the date of payment.

The above is only a summary of the Dissenting Shareholder provisions of the CBCA, the Interim Order and the Plan of Arrangement, which are technical and complex. It is suggested that any BCE Common Shareholder or Nortel Networks Common Shareholder wishing to avail himself or herself of his or her rights under those provisions seek his or her own legal advice as failure to comply strictly with the provisions of the CBCA, the Interim Order and the Plan of Arrangement may prejudice his or her right of dissent. For a general summary of certain Canadian federal income tax implications and U.S. federal income tax considerations to a Dissenting Shareholder, see "Income Tax Considerations".

NEW NORTEL SHAREHOLDER RIGHTS PLAN

In anticipation of the Arrangement, the New Nortel Board authorized New Nortel to adopt the New Nortel Rights Plan and, subject to the implementation of the Arrangement and to obtaining all necessary regulatory and shareholder approvals, to issue Rights to New Nortel Common Shareholders of record at the close of business on the Record Date after giving effect to the New Nortel Stock Split. Under the listing policies of the TSE, shareholder rights plans must be ratified by shareholders of a listed company within 180 days of their adoption. The TSE has advised New Nortel that this requirement will be satisfied in respect of the New Nortel Rights Plan if the New Nortel Rights Plan Resolution is approved by the Nortel Networks Common Shareholders at the Nortel Networks Meeting.

Objectives of the New Nortel Rights Plan

The fundamental objectives of the New Nortel Rights Plan are to provide adequate time for the New Nortel Board and New Nortel shareholders to assess an unsolicited take-over bid for New Nortel, to provide the New Nortel Board with sufficient time to explore and develop alternatives for maximizing shareholder value if such a bid is made and to provide New Nortel shareholders with an equal opportunity to participate in such a bid. The New Nortel Rights Plan encourages a potential acquiror to proceed either by way of a Permitted Bid (as defined in the New Nortel Rights Plan), which requires a take-over bid to satisfy certain minimum standards designed to promote fairness, or with the concurrence of the New Nortel Board. If a take-over bid fails to satisfy such minimum standards and the New Nortel Rights Plan is not waived by the New Nortel Board, the New Nortel Rights Plan provides that holders of New Nortel Common Shares, other than the acquiror, will be able to purchase additional New Nortel Common Shares at a 50% discount to market price, thus exposing the acquiror to substantial dilution of its holdings.

As discussed below, the Nortel Networks Board recommends the approval of the New Nortel Rights Plan by the Nortel Networks Common Shareholders. The Nortel Networks Board believes that the protection to New Nortel shareholders provided by the New Nortel Rights Plan is important since the wide distribution of New Nortel Common Shares pursuant to the Arrangement may create increased opportunities for coercive or opportunistic take-over bids. The Nortel Networks Board is not aware of any pending or threatened take-over bid for either New Nortel or Nortel Networks.

In recommending the approval of the New Nortel Rights Plan, the Nortel Networks Board considered the existing legislative framework governing take-over bids in Canada. The Nortel Networks Board believes such legislation raises the following concerns:

- (a) **Time.** Current Canadian securities legislation permits a take-over bid to expire in 21 days. It is currently contemplated that amendments will be made to the securities legislation to increase this period to 35 days. The Nortel Networks Board is of the view that the minimum bid period required under Canadian securities legislation may not, even if extended to 35 days, provide sufficient time to permit (i) shareholders to consider a take-over bid and make a reasoned and unhurried decision with respect to the take-over bid; or (ii) the New Nortel Board to develop alternatives for maximizing shareholder value. The New Nortel Rights Plan addresses these concerns by encouraging an offeror to negotiate with the New Nortel Board to waive the New Nortel Rights Plan or to proceed by way of a Permitted Bid (discussed below) which requires, among other things, that the bid be open for at least 60 days.
- (b) **Pressure to Tender.** A shareholder may feel compelled to tender to a bid which the shareholder considers to be inadequate out of a concern that failing to tender may result in the shareholder being left with illiquid or minority discounted shares in New Nortel. This is particularly so in the case of a partial bid for less than all of the New Nortel Common Shares, where the bidder wishes to obtain a control position but does not wish to acquire all of the New Nortel Common Shares. The New Nortel Rights Plan provides a shareholder tender approval mechanism that is intended to ensure that a shareholder can separate the tender decision from the approval or disapproval of a particular take-over bid by requiring that a Permitted Bid remain open for acceptance for a further 10 business days following public announcement that more than 50% of the Voting Shares held by “independent shareholders” (shareholders other than the bidder and certain related parties) have been tendered to the bid and not withdrawn.
- (c) **Unequal Treatment.** While existing securities legislation has addressed many concerns relating to the unequal treatment of shareholders, there remains the possibility that control of a company may be acquired pursuant to private agreements in which a small group of shareholders disposes of shares at premiums to market price, which premiums are not shared with the other shareholders. In addition, a person may slowly accumulate shares through stock exchange acquisitions which may result, over time, in an acquisition of control without payment of fair value for control or a fair sharing of a control premium among all shareholders. The New Nortel Rights Plan addresses these concerns by applying to all acquisitions resulting in the acquiror beneficially holding 20% or more of the New Nortel Common Shares.

It is not the intention of the Nortel Networks Board in recommending approval of the New Nortel Rights Plan to secure the continuance of the directors or management of New Nortel, nor to avoid a bid for control of New Nortel. Through the Permitted Bid mechanism, shareholders could tender to a bid which meets the Permitted Bid criteria without triggering the New Nortel Rights Plan, regardless of the acceptability of the bid to the New Nortel Board.

Furthermore, even in the context of a bid that does not meet the Permitted Bid criteria, the New Nortel Board will be bound to consider any bid for New Nortel Common Shares and consider whether to waive application of the New Nortel Rights Plan in respect of the bid. In discharging that responsibility, the New Nortel Board will be obligated to act honestly and in good faith with a view to the best interests of New Nortel. Further, Canadian securities regulators have concluded in their decisions relating to shareholder rights plans that the board of directors of a company confronted with an unsolicited take-over bid will not be permitted to maintain a shareholder rights plan indefinitely to prevent the successful completion of the bid, but only for so long as the board is actively seeking alternatives to the bid and there is a realistic possibility that, given additional time, a value maximizing alternative will be developed. The New Nortel Rights Plan will not preclude any shareholder from utilizing the proxy mechanism of the CBCA to promote a change in the management or direction of New Nortel, and will have no effect on the rights of holders of outstanding voting shares of New Nortel to requisition a meeting of shareholders in accordance with the provisions of applicable legislation.

In recent years, unsolicited bids have been made for a number of Canadian public companies, many of which had shareholder rights plans. The Nortel Networks Board believes that this demonstrates that the existence of a shareholder rights plan does not prevent the making of an unsolicited bid. Further, in a number of these cases, a change of control ultimately occurred at a price in excess of the original bid price. There can be no assurance, however, that the New Nortel Rights Plan would serve to cause a similar result.

The New Nortel Rights Plan will not interfere with the day-to-day operations of New Nortel. The initial issuance of the Rights will not in any way alter the financial condition of New Nortel, impede its business plans or alter its financial statements. In addition, the New Nortel Rights Plan is initially not dilutive and is not expected to have any effect on the trading of New Nortel Common Shares. However, if a Flip-in Event (as defined in the New Nortel Rights Plan) occurs and the Rights separate from the New Nortel Common Shares as described in the summary below, reported earnings per share and reported cash flow per share on a fully-diluted or non-diluted basis may be affected. In addition, holders of Rights not exercising their Rights after a Flip-in Event may suffer substantial dilution.

Terms of the New Nortel Rights Plan

The following is a summary of the principal terms of the New Nortel Rights Plan which is qualified in its entirety by reference to the text of the New Nortel Rights Plan Agreement. Any shareholder or interested party can obtain a complete copy of the New Nortel Rights Plan Agreement by contacting the Corporate Secretary of Nortel Networks as set out on page ii of this Arrangement Circular.

Issuance of Rights

One right (a “Right”) will be issued by New Nortel in respect of each New Nortel Common Share outstanding on the Record Date after giving effect to the New Nortel Stock Split, and one Right will be issued in respect of each New Nortel Common Share issued thereafter and prior to the earlier of the Separation Time (as defined below) and the Expiration Time (as defined below). Each Right entitles the registered holder thereof to purchase from New Nortel one New Nortel Common Share at an exercise price equal to three times the market price of a New Nortel Common Share determined as at the Separation Time, subject to adjustment and certain anti-dilution provisions (the “Exercise Price”). If a Flip-in Event occurs (as described below), each Right will be adjusted and entitle the registered holder to receive, upon payment of the Exercise Price, New Nortel Common Shares having an aggregate market price equal to twice the Exercise Price.

Trading of Rights

Until the Separation Time, the Rights will be evidenced by the certificates representing the New Nortel Common Shares and will be transferable only together with the associated New Nortel Common Shares. From and after the Separation Time, separate certificates evidencing the Rights (“Rights Certificates”), together with a disclosure statement prepared by New Nortel describing the Rights, will be mailed to holders of record of New Nortel Common Shares (other than an Acquiring Person, as defined below) as of the Separation Time. The Rights will be transferable separately from the New Nortel Common Shares after the Separation Time.

Separation Time

The “Separation Time” is the close of business on the eighth trading day after the earlier of (i) the “Stock Acquisition Date”, which is the first date of public announcement of facts indicating that a person has become an

Acquiring Person; and (ii) the date of the commencement of, or first public announcement or disclosure of the intent of any person (other than New Nortel or any corporation controlled by New Nortel) to commence, a Take-over Bid (other than a Permitted Bid or a Competing Permitted Bid, as each such term is defined below). In either case, the Separation Time can be such later date as may from time to time be determined by the New Nortel Board. A "Take-over Bid" is an offer to acquire New Nortel Common Shares or securities convertible into New Nortel Common Shares, where the shares subject to the offer, together with the securities "Beneficially Owned" (as defined below) by the person (the "Offeror") making the Take-over Bid constitute 20% or more of the then outstanding New Nortel Common Shares.

Acquiring Person

In general, an "Acquiring Person" is a person who is the "Beneficial Owner" of 20% or more of the outstanding New Nortel Common Shares and any other shares in the share capital or any voting interest of New Nortel entitled to vote generally on the election of directors ("Voting Shares"). Excluded from the definition of "Acquiring Person" are New Nortel and its subsidiaries, and any person who becomes the "Beneficial Owner" of 20% or more of the outstanding Voting Shares as a result of one or more, or any combination of, a Voting Share Reduction, a Permitted Bid Acquisition, an Exempt Acquisition and a Pro Rata Acquisition. In general:

- (a) a "Voting Share Reduction" means an acquisition or redemption by New Nortel or a corporation controlled by New Nortel of Voting Shares;
- (b) a "Permitted Bid Acquisition" means an acquisition of Voting Shares made pursuant to a Permitted Bid or a Competing Permitted Bid;
- (c) an "Exempt Acquisition" means a share acquisition in respect of which the New Nortel Board has waived the application of the New Nortel Rights Plan; and
- (d) a "Pro Rata Acquisition" means an acquisition of Voting Shares pursuant to a dividend reinvestment plan, share purchase plan, stock dividend, stock split or other similar event. It also means the acquisition or exercise of share purchase rights distributed pursuant to a bona fide rights offering or a public or private distribution of Voting Shares by New Nortel, but only if the acquisition allows the acquiror to maintain its percentage holding of Voting Shares.

Beneficial Ownership

In general, a person is deemed to "Beneficially Own" Voting Shares actually held by it and, in certain circumstances, Voting Shares held by others. Included as Voting Shares Beneficially Owned by a person are holdings by that person's Affiliates (generally, a person that controls, is controlled by, or is under common control with another person) and Associates (generally, relatives that share the same residence). Also included are securities which the person or any of the person's Affiliates or Associates has the right to acquire within 60 days (other than pursuant to customary agreements with and between underwriters and banking group or selling group members with respect to a distribution of securities, and other than pledges of securities in the ordinary course of business).

A person is also deemed to Beneficially Own any securities that are Beneficially Owned (as described above) by any other person with which the Person is acting jointly or in concert (a "Joint Actor"). A person is a Joint Actor with anyone who is party to an agreement, commitment or understanding with the first person (or another person acting jointly or in concert with the first person) to acquire or offer to acquire Voting Shares.

The definition of "Beneficial Ownership" contains several exclusions whereby a person is not considered to "Beneficially Own" a security. There are exemptions from the deemed "Beneficial Ownership" provisions for institutional shareholders acting in the ordinary course of business. These exemptions apply to (i) a fund manager ("Fund Manager") which holds securities in the ordinary course of business in the performance of its duties for the account of any other Person (a "Client"); (ii) a licensed trust corporation ("Trust Company") acting as trustee or administrator or in similar capacity in relation to the estates of deceased or incompetent persons (each an "Estate Account") or in relation to other accounts (each an "Other Account") and which holds securities in the ordinary course of its duties for such accounts; (iii) the administrator or the trustee (a "Plan Administrator") of one or more pension funds or plans (a "Plan") registered under Canadian or United States law or (iv) an agency (the "Crown Agent") established by statute for purposes that include the management of investment funds for employee benefit plans, pension plans, insurance plans, or various public bodies. The foregoing exemptions only apply so long as the Fund Manager, Trust Company, Plan Administrator, Plan or Crown Agent holds such securities in the ordinary course

of its business and is not then making or has not then announced a current intention to make a Take-over Bid, other than pursuant to a distribution by New Nortel or by means of a Permitted Bid or a Competing Permitted Bid or pursuant to certain market transactions made in the ordinary course of business.

Furthermore, a person will not be deemed to “Beneficially Own” a security because (i) the person is a Client of the same Fund Manager, an Estate Account or an Other Account of the same Trust Company, or Plan with the same Plan Administrator as another person or Plan on whose account the Fund Manager, Trust Company or Plan Administrator, as the case may be, holds such security; or (ii) the person is a Client of a Fund Manager, Estate Account, Other Account or Plan, and the security is owned by the Fund Manager, Trust Company or Plan Administrator, as the case may be.

A person will not be deemed to Beneficially Own any security because such security has been agreed to be deposited to a “Lock-up Agreement” (as defined below) until the earlier of the deposited security being taken up or paid for, whichever shall first occur. In order to qualify as a Lock-up Agreement, the terms of the agreement must be publicly disclosed and the Lock-up Agreement must meet certain other requirements. The Lock-up Agreement:

- (a) must permit the person (the “Locked-up Person”) who has agreed to deposit its Voting Shares to the bid contemplated by the Lock-up Agreement (the “Lock-up Bid”) to withdraw its Voting Shares from the Lock-up Agreement and the Lock-up Bid in order to deposit them to another Take-over Bid or to support another transaction (prior to the Voting Shares being taken up and paid for under the Lock-up Bid):
 - (i) at a price per Voting Share that exceeds the price per Voting Share offered under the Lock-up Bid; or
 - (ii) for a number of Voting Shares at least 7% greater than the number of Voting Shares the Offeror has offered to purchase under the Lock-up Bid at a price per Voting Share that is not less than the price per Voting Share offered under the Lock-up Bid; or
 - (iii) at such price that exceeds, by as much as or more than an amount (the “Specified Amount”) specified in the Lock-up Agreement, the price for each Voting Share offered in the Lock-up Bid, provided that the Specified Amount is not greater than 7% of the price offered in the Lock-up Bid;

the Lock-Up Agreement may contain a right of first refusal or require a period of delay to give the person who made the Lock-up Bid an opportunity to match a higher price in another Take-over Bid or other similar limitation on a Locked-up Person’s right to withdraw Voting Shares from the agreement, so long as the limitation does not preclude the exercise by the Locked-up Person of the right to withdraw Voting Shares during the period of the other Take-over Bid or transaction; and

- (b) must not provide for “break-up” fees, “topping” fees, penalties, expenses or other amounts payable by the Locked-up Person that exceed in aggregate the greater of:
 - (i) 2½% of the price or value of the aggregate consideration payable under the Lock-up Bid to a Locked-up Person; and
 - (ii) 50% of the amount by which the price or value of the consideration received by a Locked-up Person under another Take-over Bid exceeds the price or value of the consideration that the Locked-up Person would have received under the Lock-up Bid.

Flip-in Event

A “Flip-in Event” occurs when any person becomes an Acquiring Person. In the event that, prior to the Expiration Time, a Flip-in Event which has not been waived by the New Nortel Board occurs (see “Redemption, Waiver and Termination” below), each Right (except for Rights Beneficially Owned or which may thereafter be Beneficially Owned by an Acquiring Person or any Affiliate or Associate of an Acquiring Person or any other person acting jointly or in concert with an Acquiring Person or such Affiliate or Associate or a transferee of such a person, which Rights will become null and void) shall constitute the right to purchase from New Nortel that number of New Nortel Common Shares having an aggregate market price on the date of the Flip-in Event equal to twice the Exercise Price, for the Exercise Price. For example, if the market price at the Separation Time (and at the time of the Flip-in Event) is \$250.00, the holder of each Right would be entitled upon the occurrence of a Flip-in Event to purchase 6 New Nortel Common Shares for a total price of \$750.00, or \$125.00 per share (a discount of 50% from the market price).

Permitted Bid and Competing Permitted Bid

A “Permitted Bid” is a Take-over Bid made by way of a take-over bid circular and which complies with the following additional provisions:

- (a) the Take-over Bid is made to all holders of Voting Shares;
- (b) Voting Shares may be deposited under the bid at any time between the date of the bid and the date Voting Shares are taken up and paid for, and any Voting Shares deposited under the bid may be withdrawn until taken up and paid for; and
- (c) the Take-over Bid must be open for at least 60 days and more than 50% of the outstanding Voting Shares (other than shares Beneficially Owned on the date of the bid by the Offeror and certain related parties) must be deposited under the bid and not withdrawn before any shares may be taken up and paid for and, if 50% of the Voting Shares are so deposited and not withdrawn, an announcement of such fact must be made and the bid must remain open for a further 10 business day period.

A “Competing Permitted Bid” is a Take-over Bid that is made after a Permitted Bid has been made but prior to its expiry, satisfies all the requirements of a Permitted Bid as described above, except that a Competing Permitted Bid is not required to remain open for 60 days so long as it is open until the later of 21 days (or such longer minimum period of days that a take-over bid must remain open for acceptance under the *Securities Act* (Ontario)) after the date of the Competing Permitted Bid and the 60th day after the earliest date on which any other Permitted Bid or Competing Permitted Bid then in existence was made.

Redemption, Waiver and Termination

- (a) **Redemption of Rights.** The New Nortel Board acting in good faith may, with prior shareholder approval, at any time prior to a Flip-in Event, elect to redeem all but not less than all of the then outstanding Rights at a redemption price of Cdn. \$0.0001 per Right, appropriately adjusted for anti-dilution (the “Redemption Price”).
- (b) **Waiver of Inadvertent Acquisition.** The New Nortel Board acting in good faith shall waive the application of the New Nortel Rights Plan in respect of the occurrence of any Flip-in Event if (i) the New Nortel Board has determined, following the Stock Acquisition Date and prior to the Separation Time, that a person became an Acquiring Person under the New Nortel Rights Plan by inadvertence and without any intent or knowledge that it would become an Acquiring Person; and (ii) the Acquiring Person, within 10 days after the determination by the New Nortel Board or such later date as the New Nortel Board may determine (the “Disposition Date”), has reduced its Beneficial Ownership of Voting Shares such that the person is no longer an Acquiring Person. If the person remains an Acquiring Person at the close of business on the Disposition Date, the Disposition Date shall be deemed to be the date of occurrence of a further Stock Acquisition Date.
- (c) **Permitted Bid and Certain Other Acquisitions.** In the event that a person acquires Voting Shares pursuant to a Permitted Bid, Competing Permitted Bid or an Exempt Acquisition referred to in (d) below, the New Nortel Board shall be deemed to have elected to redeem the Rights at the Redemption Price.
- (d) **Discretionary Waiver with Mandatory Waiver of Concurrent Bids.** The New Nortel Board acting in good faith may, prior to the occurrence of the relevant Flip-in Event, waive the application of the New Nortel Rights Plan to a Flip-in Event that may occur by reason of a Take-over Bid made by means of a take-over bid circular to all holders of Voting Shares. However, if the New Nortel Board waives the application of the New Nortel Rights Plan, the New Nortel Board shall be deemed to have waived the application of the New Nortel Rights Plan in respect of any other Flip-in Event occurring by reason of such a Take-over Bid made prior to the expiry of a bid for which a waiver is, or is deemed to have been, granted.
- (e) **Waiver With Shareholder Approval.** The New Nortel Board acting in good faith may, with prior shareholder approval, waive the application of the New Nortel Rights Plan to a Flip-In Event that may occur by reason of an acquisition of Voting Shares other than pursuant to a Take-Over Bid made by means of a take-over bid circular to all holders of Voting Shares. If the New Nortel Board proposes such a waiver, it shall extend the Separation Time to a date subsequent to and not more than 10 business days following the meeting of shareholders held to approve such waiver.

- (f) **Redemption of Rights on Withdrawal or Termination of Bid.** Where a Take-over Bid that is not a Permitted Bid or Competing Permitted Bid is withdrawn or otherwise terminated after the Separation Time and prior to the occurrence of a Flip-in Event, the New Nortel Board may elect to redeem all the outstanding Rights at the Redemption Price and reissue Rights to holders of record of Voting Shares immediately following such redemption. Upon the Rights being so redeemed and reissued all the provisions of the New Nortel Rights Plan shall continue to apply as if the Separation Time had not occurred and Rights Certificates had not been mailed, and the Separation Time shall be deemed not to have occurred.

If the New Nortel Board is deemed to have elected or elects to redeem the Rights as described in paragraph (a) or (c) above, the right to exercise the Rights will thereupon, without further action and without notice, terminate and the only right thereafter of the holders of Rights is to receive the Redemption Price. Within 10 days of any such election or deemed election to redeem the Rights, New Nortel will notify the holders of the New Nortel Common Shares or, after the Separation Time, the holders of the Rights.

Anti-Dilution Adjustments

The Exercise Price of a Right, the number and kind of securities subject to purchase upon exercise of a Right, and the number of Rights outstanding, will be adjusted in certain events (subject to the terms of the New Nortel Rights Plan), including:

- (a) if there is a stock dividend (other than pursuant to any dividend reinvestment plan) on the New Nortel Common Shares, or a subdivision or consolidation of the New Nortel Common Shares, or an issuance of Voting Shares in respect of, in lieu of or in exchange for New Nortel Common Shares; or
- (b) if New Nortel fixes a record date for the distribution to all holders of New Nortel Common Shares of certain rights or warrants to acquire New Nortel Common Shares, or for the making of a distribution to all holders of New Nortel Common Shares of evidences of indebtedness or assets (other than regular periodic cash dividends or stock dividends payable in New Nortel Common Shares) or other securities.

Supplements and Amendments

The following changes to the New Nortel Rights Plan may be made subject to subsequent ratification by the holders of the New Nortel Common Shares or, after the Separation Time, the holders of the Rights:

- (a) changes that the New Nortel Board, acting in good faith, determines are necessary to maintain the validity of the New Nortel Rights Plan and the Rights as a result of any change in any applicable legislation, regulation or rules; and
- (b) changes to the New Nortel Rights Plan in order to cure any clerical or typographical error.

Subject to the above exceptions, any amendment, variation or deletion of or from the New Nortel Rights Plan and the Rights made after the Nortel Networks Meeting will be subject to the prior approval of the holders of New Nortel Common Shares, or, after the Separation Time, the holders of the Rights.

Expiration

If the New Nortel Rights Plan is approved at the Nortel Networks Meeting and the Arrangement becomes effective, the New Nortel Rights Plan will remain in force until the “Expiration Time”, being the earlier of the Termination Time (the time at which the right to exercise Rights shall terminate pursuant to the New Nortel Rights Plan) and the date of the first annual meeting of shareholders of New Nortel following the third anniversary of the New Nortel Rights Plan, unless reconfirmed at such meeting, in which case the New Nortel Rights Plan would expire at the earlier of the Termination Time and the sixth anniversary of the New Nortel Rights Plan.

Canadian Federal Income Tax Consequences

In the opinion of Ogilvy Renault, counsel to Nortel Networks and New Nortel, in respect of the Nortel Networks Public Shareholders, the following summary fairly describes the Canadian federal income tax considerations relating to the issuance of Rights under the New Nortel Rights Plan. Reference is made to “Income Tax Considerations — Certain Canadian Federal Income Tax Considerations” above for the general assumptions and qualifications made by Ogilvy Renault in rendering this opinion.

While the matter is not free from doubt, the issue of the Rights may be a taxable benefit which must be included in the income of New Nortel Common Shareholders. However, no amount must be included in income if the Rights do not have a monetary value at the date of issue. New Nortel considers that the Rights, when issued, will have negligible monetary value, there being only a remote possibility that the Rights will ever be exercised.

Assuming that the Rights have no value, New Nortel Common Shareholders will not be required to include any amount in income or be subject to withholding tax under the Tax Act as a result of the issuance of the Rights. The Rights will be considered to have been acquired at no cost.

New Nortel Common Shareholders may have income or be subject to withholding tax under the Tax Act if the Rights are exercised or otherwise disposed of.

This statement is of a general nature only and is not intended to constitute nor should it be construed to constitute legal or tax advice to any particular shareholder. New Nortel Common Shareholders are advised to consult their own tax advisors regarding the consequences of acquiring, holding, exercising or otherwise disposing of their Rights, taking into account their own particular circumstances.

United States Federal Income Tax Consequences

In the opinion of Cleary, Gottlieb, Steen & Hamilton, U.S. counsel to Nortel Networks, based on certain representations as to factual matters by Nortel Networks, the following summary fairly describes the U.S. federal income tax considerations relating to the issuance of Rights under the New Nortel Rights Plan. Reference is made to “Income Tax Considerations — Certain United States Federal Income Tax Considerations” above for the general assumptions and qualifications made by Cleary, Gottlieb, Steen & Hamilton in rendering this opinion. As the possibility of the Rights becoming exercisable is both remote and speculative, the adoption of the New Nortel Rights Plan will not constitute the distribution of stock or property by New Nortel to its shareholders, an exchange of property or stock, or any other event giving rise to the realization of gross income by any shareholder. New Nortel Common Shareholders may have taxable income upon occurrence of a Flip-in Event or if the Rights are exercised, redeemed, sold, exchanged, or otherwise disposed of. If a Flip-in Event occurs, or upon the Separation Time, New Nortel Common Shareholders should consult their own tax advisors concerning the consequences of acquiring, holding, exercising or disposing of their Rights.

Eligibility for Investment in Canada

In the opinion of Ogilvy Renault, counsel to Nortel Networks and New Nortel, the Rights will be qualified investments under the Tax Act for trusts governed by registered retirement savings plans, registered retirement income funds, deferred profit sharing plans and registered education savings plans, and will not constitute foreign property of any such plan or any other taxpayer subject to Part XI of the Tax Act, provided that the New Nortel Common Shares continue to be qualified investments that are not foreign property for such plans.

Further, in the opinion of such counsel the issuance of the Rights will not affect the eligibility of the New Nortel Common Shares as investments for investors governed by certain Canadian federal statutes listed in “New Nortel Eligibility for Investment in Canada” above.

Recommendation of the Nortel Networks Board

The Nortel Networks Board unanimously recommends that the Nortel Networks Common Shareholders vote FOR the New Nortel Rights Plan. The New Nortel Rights Plan will only become effective if the Arrangement is implemented and the New Nortel Rights Plan is approved by the Nortel Networks Common Shareholders. In order for the New Nortel Rights Plan to be approved by the Nortel Networks Common Shareholders, the New Nortel Rights Plan Resolution must be approved by a majority of the votes cast by the Nortel Networks Common Shareholders present in person, or represented by proxy, at the Nortel Networks Meeting.

BCE has advised Nortel Networks and New Nortel that it intends to cause all of the Nortel Networks Common Shares held by BCE and its affiliates to be voted in favour of the New Nortel Rights Plan Resolution.

ANNEX A

Form of BCE Arrangement Resolution

RESOLVED, as a special resolution:

1. THAT the Arrangement under section 192 of the *Canada Business Corporations Act* substantially as set forth in the Plan of Arrangement attached as Appendix I to the Amended and Restated Arrangement Agreement attached as Annex F to the Notice of Application and Joint Arrangement Circular (the "Arrangement Circular") of BCE Inc. ("BCE") and Nortel Networks Corporation ("Nortel Networks") be and is hereby approved and authorized;
2. THAT the Amended and Restated Arrangement Agreement made as of January 26, 2000 among BCE, Nortel Networks, 3056074 Canada Inc., 3263207 Canada Inc. and New Nortel Inc., attached as Annex F to the Arrangement Circular, be and is hereby confirmed, ratified and adopted;
3. THAT notwithstanding that this resolution has been duly passed by the shareholders of BCE or has received the approval of the Superior Court of Justice of Ontario, the Board of Directors of BCE may amend or decide not to proceed with the Arrangement or revoke this resolution at any time prior to the issue of certificates giving effect to the Arrangement without further approval of the shareholders of BCE; and
4. THAT any director or officer of BCE be and is hereby authorized, for and on behalf of BCE, to execute and deliver articles of arrangement and all other documents and do all such other acts or things as such person may determine to be necessary or advisable to give effect to this resolution, the execution of any such document or the doing of any such other act or thing being conclusive evidence of such determination.

ANNEX B

Form of Nortel Networks Arrangement Resolution

RESOLVED, as a special resolution, that:

1. the Arrangement (the “Arrangement”) under section 192 of the *Canada Business Corporations Act* substantially as set forth in the Plan of Arrangement attached as Appendix I to the Amended and Restated Arrangement Agreement attached as Annex F to the Notice of Application and Joint Arrangement Circular (the “Arrangement Circular”) of BCE Inc. (“BCE”) and Nortel Networks Corporation (“Nortel Networks”) be and is hereby approved and authorized;
2. the Amended and Restated Arrangement Agreement made as of January 26, 2000 among BCE, Nortel Networks, 3056074 Canada Inc., 3263207 Canada Inc. and New Nortel Inc., attached as Annex F to the Arrangement Circular, be and is hereby confirmed, ratified and adopted;
3. notwithstanding that this resolution has been duly passed by the shareholders of Nortel Networks or has received the approval of the Superior Court of Justice of Ontario, the Board of Directors of Nortel Networks may amend or decide not to proceed with the Arrangement or revoke this resolution at any time prior to the issue of certificates giving effect to the Arrangement without further approval of the shareholders of Nortel Networks; and
4. any one director or officer of Nortel Networks be and is hereby authorized, for and on behalf of Nortel Networks, to execute and deliver articles of arrangement and all other documents and do all such other acts or things as such person may determine to be necessary or advisable to give effect to this resolution, the execution of any such document or the doing of any such other act or thing being conclusive evidence of such determination.

ANNEX C

Form of New Nortel Rights Plan Resolution

RESOLVED, as an ordinary resolution, that the Shareholder Rights Plan adopted by New Nortel Inc. pursuant to a Shareholder Rights Plan Agreement dated as of March 13, 2000 and all rights to be issued pursuant to such Plan are approved.

ANNEX D

Court File No. 00-CL-3687

ONTARIO
SUPERIOR COURT OF JUSTICE
(COMMERCIAL LIST)

IN THE MATTER OF an application by BCE Inc. and Nortel Networks Corporation under the provisions of s. 192 of the *Canada Business Corporations Act*, R.S.C. 1985, c. C-44, for approval of a proposed arrangement involving BCE Inc., Nortel Networks Corporation, 3056074 Canada Inc., 3263207 Canada Inc. and New Nortel Inc.

APPLICATION UNDER the *Canada Business Corporations Act*, R.S.C. 1985, c. C-44, s. 192.

NOTICE OF APPLICATION

TO THE RESPONDENTS:

A LEGAL PROCEEDING HAS BEEN COMMENCED by the applicants. The claim made by the applicants appears on the following page.

THIS APPLICATION will come on for a hearing on April 28, 2000 at 4:00 p.m. at 8th Floor, 393 University Avenue, Toronto, Ontario or at such other date, time and place as this Honourable Court may determine.

IF YOU WISH TO OPPOSE THIS APPLICATION, to receive notice of any step in the application or to be served with any documents in the application, you or an Ontario lawyer acting for you must forthwith prepare a notice of appearance in Form 38A prescribed by the Rules of Civil Procedure, serve it on the applicants' lawyers or, where the applicants do not have a lawyer, serve it on the applicants, and file it, with proof of service, in this court office, and you or your lawyer must appear at the hearing.

IF YOU WISH TO PRESENT AFFIDAVIT OR OTHER DOCUMENTARY EVIDENCE TO THE COURT OR TO EXAMINE OR CROSS-EXAMINE WITNESSES ON THE APPLICATION, you or your lawyer must, in addition to serving your notice of appearance, serve a copy of the evidence on the applicants' lawyer or, where the applicants do not have a lawyer, serve it on the applicants, and file it, with proof of service, in the court office where the application is to be heard as soon as possible, but not later than 2 p.m. on the day before the hearing, or within such other time as the Court may by Order determine.

IF YOU FAIL TO APPEAR AT THE HEARING, JUDGMENT MAY BE GIVEN IN YOUR ABSENCE AND WITHOUT FURTHER NOTICE TO YOU. IF YOU WISH TO OPPOSE THIS APPLICATION BUT ARE UNABLE TO PAY LEGAL FEES, LEGAL AID MAY BE AVAILABLE TO YOU BY CONTACTING A LOCAL LEGAL AID OFFICE.

Date March 13, 2000

Issued by "Natasha Brown"
Local registrar

Address of court office 393 University Avenue
10th Floor,
Toronto, Ontario
M5G 1E6.

TO: The Holders of the Common Shares of BCE Inc.

TO: The Holders of the Common Shares of Nortel Networks Corporation and to the Holders of Rights to Acquire Common Shares of Nortel Networks Corporation

TO: The Director under the CBCA
Corporations Directorate
Industry Canada
9th Floor, Journal Tower South
365 Laurier Avenue West
Ottawa, Ontario K1A 0C8

APPLICATION

1. The applicants, BCE Inc. ("BCE") and Nortel Networks Corporation ("Nortel Networks"), make application for:
 - (a) a declaration that BCE, Nortel Networks, 3056074 Canada Inc. ("Stockco"), 3263207 Canada Inc. ("326") and New Nortel Inc. ("New Nortel") are each incorporated, amalgamated or continued under the provisions of the *Canada Business Corporations Act*, R.S.C. 1985, c. C-44 (the "CBCA") and are subject to the provisions thereof;
 - (b) an interim order for advice and directions pursuant to section 192 of the CBCA;
 - (c) an order approving a Plan of Arrangement which is Appendix I to an Arrangement Agreement, as amended and restated, among BCE, Nortel Networks, Stockco, 326 and New Nortel made as of January 26, 2000, affecting the holders of, *inter alia*, the Common Shares of BCE and Nortel Networks; and
 - (d) such other relief as counsel may advise.
2. The grounds for the application are:
 - (a) BCE, Nortel Networks, Stockco, 326 and New Nortel are each incorporated, amalgamated or continued under the provisions of the CBCA and are not discontinued under the CBCA;
 - (b) all statutory conditions have been fulfilled or, by the return of this application, will have been fulfilled for the granting of approval of the proposed arrangement, the proposed Plan of Arrangement is in the best interests of BCE and Nortel Networks and is fair and reasonable;
 - (c) it is not practicable for BCE and Nortel Networks to effect fundamental changes in the nature of an arrangement such as those contemplated by the Plan of Arrangement under any other provision of the CBCA;
 - (d) each of BCE and Nortel Networks is not insolvent;
 - (e) BCE and Nortel Networks seek an order, pursuant to section 192 of the CBCA, for the approval of the arrangement set out in the Plan of Arrangement which includes:
 - (i) an amalgamation of two or more corporations;
 - (ii) an exchange of securities of corporations held by security holders for property, money or other securities of other bodies corporate that are not take-over bids; and
 - (iii) a combination of the above.
 - (f) the provisions of section 192 of the CBCA;
 - (g) rules 14.05 and 38 of the Rules of Civil Procedure; and
 - (h) such further and other grounds as counsel may advise.
3. The following documentary evidence will be used at the hearing of the application:
 - (a) such Interim Order as may be granted by this Honourable Court;
 - (b) the affidavits of William D. Anderson and Nicholas J. DeRoma to be sworn and the exhibits thereto;
 - (c) such further and supplementary affidavits to be filed as counsel may advise, including those reporting as to the results of any meetings called pursuant to the Interim Order of this Honourable Court; and,
 - (d) such further and other material as counsel may advise.

March 13, 2000

DAVIES WARD & BECK

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Solicitors for BCE Inc. 3056074 Canada Inc. and
3263207 Canada Inc.

OGILVY RENAULT

Barristers and Solicitors
77 King St. West, P.O. Box 141
21st Floor, Royal Trust Tower
Toronto Dominion Centre
Toronto, ON M5K 1H1

Charles F. Scott LSUC#: 14534N (416) 216-4032

Stephen A. Scholtz LSUC#: 34867N (416) 216-4030

Fax: (416) 216-3930

Solicitors for Nortel Networks
Corporation and New Nortel Inc.

ANNEX E

Interim Order

Court File No. 00-CL-3687

ONTARIO
SUPERIOR COURT OF JUSTICE
(COMMERCIAL LIST)

IN THE MATTER OF an application by BCE Inc. and Nortel Networks Corporation under the provisions of s. 192 of the *Canada Business Corporations Act*, R.S.C. 1985, c. C-44, for approval of a proposed arrangement involving BCE Inc., Nortel Networks Corporation, 3056074 Canada Inc., 3263207 Canada Inc. and New Nortel Inc.

APPLICATION UNDER the *Canada Business Corporations Act*, R.S.C. 1985, c. C-44, s. 192.

THE HONOURABLE) WEDNESDAY,
)
MR. JUSTICE FARLEY) MARCH 15, 2000

ORDER

THIS MOTION, made by the Applicants, BCE Inc. ("BCE") and Nortel Networks Corporation ("Nortel Networks"), for the advice and directions of the Court in connection with an arrangement under section 192 of the *Canada Business Corporations Act*, R.S.C. 1985, c. C-44 (the "CBCA"), was heard this day at Toronto, Ontario.

ON READING the Notice of Application and Notice of Motion herein dated March 13, 2000, and the Affidavits of William D. Anderson, sworn March 13, 2000 (the "Anderson Affidavit") and Nicholas J. DeRoma, sworn March 13, 2000 (the "DeRoma Affidavit"), filed, and the exhibits thereto, and on hearing the submissions of counsel for BCE, 3056074 Canada Inc., 3263207 Canada Inc., Nortel Networks and New Nortel Inc. and on being advised that the Director under the CBCA does not intend to appear or to make submissions in connection with this motion.

BCE Meeting

1. THIS COURT ORDERS that BCE call, hold and conduct a meeting (the "BCE Meeting") on Wednesday, April 26, 2000 at the Metropolitan Toronto Convention Centre, 222 Bremner Blvd. (South Building), Toronto, Ontario, Canada of the holders (the "BCE Common Shareholders") of its common shares (the "BCE Common Shares") to consider and, if deemed advisable, to pass a resolution (the "BCE Arrangement Resolution") to approve the plan of arrangement (the "Plan of Arrangement") set out in the Plan of Arrangement which is attached as Appendix I to the Arrangement Agreement made as of January 26, 2000, as amended and restated (the "Arrangement Agreement"), among BCE, Nortel Networks, 3056074 Canada Inc., 3263207 Canada Inc. and New Nortel Inc., as set out in Annex F to the draft Notice of Application and Joint Arrangement Circular (the "Notice and Arrangement Circular") which is marked as Exhibit "A" to the Anderson Affidavit, as the same may be amended from time to time pursuant to the terms of the Arrangement Agreement or as the Court may direct.
2. THIS COURT ORDERS that the BCE Meeting shall be called, held and conducted in accordance with the provisions of the by-laws of BCE, the Management Proxy Circular of BCE prepared in connection with the BCE Meeting and marked as Exhibit "B" to the Anderson Affidavit (the "BCE Circular"), the Notice and Arrangement Circular and this Order.
3. THIS COURT ORDERS that the Chair of the BCE Meeting shall be Lynton R. Wilson, Chairman of the Board of BCE, or failing him, such other person as may be appointed in accordance with the by-laws of BCE.
4. THIS COURT ORDERS that each holder of BCE Common Shares shall be entitled at the BCE Meeting on a ballot on the BCE Arrangement Resolution to one vote for each such BCE Common Share held.

5. THIS COURT ORDERS that the procedure for the use of proxies at the BCE Meeting shall be as set out in the draft BCE Circular.
6. THIS COURT ORDERS that, subject to further order of this Court, the BCE Arrangement Resolution shall be considered to have been adopted by the BCE Common Shareholders upon approval of at least 66²/₃% of the votes cast by the BCE Common Shareholders, voting as a single class, present in person or represented by proxy at the BCE Meeting.
7. THIS COURT ORDERS that the only persons entitled to notice of the BCE Meeting shall be the BCE Common Shareholders of record at the close of business on March 21, 2000, the directors and the auditors of BCE, that the only persons entitled to attend the BCE Meeting shall be the BCE Common Shareholders of record at the close of business on March 21, 2000, their proxy holders, the directors, the transfer agent and the auditors of BCE, the professional legal and financial advisors to BCE and Nortel Networks, the Director under the CBCA and such other persons as permitted by the Chair of the meeting and that the only persons entitled to be represented and to vote, in person or by proxy, at the BCE Meeting shall be the holders of BCE Common Shares at the close of business on March 21, 2000, in person or by proxy, unless ownership of BCE Common Shares has been transferred after such date and the transferee of such shares establishes ownership and requests, not later than 10 days before the BCE Meeting, that the name of such transferee be placed on the voting list.

Nortel Networks Meeting

8. THIS COURT ORDERS that Nortel Networks call, hold and conduct a meeting (the "Nortel Networks Meeting") on Thursday, April 27, 2000 at Nortel Networks' Carling Campus, 3500 Carling Avenue, Nepean, Ontario, Canada of the holders (the "Nortel Networks Common Shareholders") of its common shares (the "Nortel Networks Common Shares") to consider and, if deemed advisable, to pass a resolution (the "Nortel Arrangement Resolution") to approve the plan of arrangement set out in the Plan of Arrangement which is attached as Appendix I to the Arrangement Agreement as set out in Annex F to the Notice and Arrangement Circular, as the same may be amended from time to time pursuant to the terms of the Arrangement Agreement or as the Court may direct.
9. THIS COURT ORDERS that the Nortel Networks Meeting shall be called, held and conducted in accordance with the provisions of the by-laws of Nortel Networks, the Proxy Circular and Proxy Statement of Nortel Networks prepared in connection with the Nortel Networks Meeting and marked as Exhibit "B" to the DeRoma Affidavit (the "Nortel Circular"), the Notice and Arrangement Circular and this Order.
10. THIS COURT ORDERS that the Chair of the Nortel Networks Meeting shall be Frank C. Carlucci, Chairman of the Board of Nortel Networks, or failing him, such other person as may be appointed in accordance with the by-laws of Nortel Networks.
11. THIS COURT ORDERS that each holder of Nortel Networks Common Shares shall be entitled at the Nortel Networks Meeting on a ballot to one vote for each such Nortel Networks Common Share held.
12. THIS COURT ORDERS that the procedure for the use of proxies at the Nortel Networks Meeting shall be as set out in the Nortel Circular.
13. THIS COURT ORDERS that, subject to further order of this Court, the Nortel Networks Arrangement Resolution shall be considered to have been adopted by the Nortel Networks Common Shareholders upon approval of at least 66²/₃% of the votes cast by the Nortel Networks Common Shareholders, voting as a single class, present in person or represented by proxy at the Nortel Networks Meeting.
14. THIS COURT ORDERS that the only persons entitled to notice of the Nortel Networks Meeting shall be the Nortel Networks Common Shareholders of record at the close of business on March 21, 2000, the directors and the auditors of Nortel Networks, that the only persons entitled to attend the Nortel Networks Meeting shall be the Nortel Networks Common Shareholders of record at the close of business on March 21, 2000, their proxy holders, the directors, the transfer agent and the auditors of Nortel Networks, the professional legal and financial advisors to Nortel Networks and BCE, the Director under the CBCA and such other persons as permitted by the Chair of the meeting and that the only persons entitled to be represented and to vote, in person or by proxy, at the Nortel Networks Meeting shall be the holders of Nortel Networks Common Shares at the close of business on March 21,

2000, in person or by proxy, unless ownership of Nortel Networks Common Shares has been transferred after such date and the transferee of such shares establishes ownership and requests, not later than 10 days before the Nortel Networks Meeting, that the name of such transferee be placed on the voting list.

Waiver of Proxy Time Limits

15. THIS COURT ORDERS that each of BCE and Nortel Networks may in their respective discretions generally waive the time limits for the deposit of proxies by BCE Common Shareholders and Nortel Networks Common Shareholders, respectively, if they respectively deem it is advisable to do so.

Notice to Shareholders and Others

16. THIS COURT ORDERS that good and sufficient notice of the BCE Meeting shall have been given to the BCE Common Shareholders if the Notice and Arrangement Circular, the Notice of Meeting and the BCE Circular in substantially the same form as contained in Exhibits "A", "B" and "D" to the Anderson Affidavit, with such amendments thereto as counsel for BCE may advise are necessary or desirable, provided that such amendments are not inconsistent with the terms of this Order, shall have been served on the BCE Common Shareholders, the directors and auditors of BCE and the Director under the CBCA, by personal service or by delivery or by mailing the same by prepaid ordinary mail to such persons in accordance with the CBCA at least 21 days prior to the date of the BCE Meeting, including the date of mailing and excluding the date of the BCE Meeting.
17. THIS COURT ORDERS that good and sufficient notice of the Nortel Networks Meeting shall have been given to the Nortel Networks Common Shareholders if the Notice and Arrangement Circular in substantially the same form as contained in Exhibit "A" to the Anderson Affidavit and the Notice of Meeting and the Nortel Circular in substantially the same form as contained in Exhibits "B" and "C" to the DeRoma Affidavit, with such amendments thereto as counsel for Nortel Networks may advise are necessary or desirable, provided that such amendments are not inconsistent with the terms of this Order, shall have been served on the Nortel Networks Common Shareholders, the directors and auditors of Nortel Networks and the Director under the CBCA, by personal service or by delivery or by mailing the same by prepaid ordinary mail to such persons in accordance with the CBCA at least 21 days prior to the date of the Nortel Networks Meeting, including the date of mailing and excluding the date of the meeting.
18. THIS COURT ORDERS that good and sufficient notice of the Application herein shall have been given to the holders of options to purchase Common Shares of Nortel Networks (the "Nortel Networks Optionholders") if the Notice and Arrangement Circular and Letter to Nortel Networks Optionholders, in substantially the same form as contained in Exhibit "A" to the Anderson Affidavit and Exhibit "E" to the DeRoma Affidavit, with such amendments thereto as counsel may advise are necessary or desirable, provided that such terms are not inconsistent with this Order, shall have been served on the Nortel Networks Optionholders whose names appear as such on the books of Nortel Networks at the close of business on March 21, 2000 by personal service or by delivery or by mailing the same by prepaid ordinary mail to such persons in accordance with the CBCA at least 21 days prior to the date of the hearing referred to in paragraph 24 hereof, including the date of mailing and excluding the date of the hearing.
19. THIS COURT ORDERS that good and sufficient notice of the Application herein shall have been given to the holders of Cumulative Redeemable Class A Preferred Shares Series 4 of Nortel Networks and related Exchange Rights (the "Nortel Networks Series 4 Shares") if the Notice and Arrangement Circular and Letter to Nortel Networks Cumulative Redeemable Class A Preferred Shares Series 4 Shareholders in substantially the same form as contained in Exhibit "A" to the Anderson Affidavit and Exhibit "F" to the DeRoma Affidavit, respectively, with such amendments thereto as counsel may advise are necessary or desirable, provided that such terms are not inconsistent with this Order, shall have been served on the holders of the Nortel Networks Series 4 Shares of record at the close of business on March 21, 2000 by personal service or by delivery or by mailing the above by prepaid ordinary mail to such persons in accordance with the CBCA and the provisions attaching to the Nortel Networks Series 4 Shares at least 21 days prior to the date of the hearing referred to in paragraph 24 hereof, including the date of mailing and excluding the date of the hearing.
20. THIS COURT ORDERS that good and sufficient notice of the Application herein shall have been given to the former holders of warrants to purchase shares of common stock of the Qtera Corporation (now warrants to

purchase Nortel Networks Common Shares) (the “Former Qtera Warrantholders”) if the Notice and Arrangement Circular and Letter to Former Qtera Warrantholders in substantially the same form as contained in Exhibit “A” to the Anderson Affidavit and Exhibit “G” to the DeRoma Affidavit, respectively, with such amendments thereto as counsel may advise are necessary or desirable, provided that such terms are not inconsistent with this Order, shall have been served on the Former Qtera Warrantholders whose names appear as such on the books of Nortel Networks at the close of business on March 21, 2000 by personal service or by delivery or by mailing the above by prepaid ordinary mail to such persons in accordance with the CBCA and the provisions attaching to the Former Qtera Warrants at least 21 days prior to the date of the hearing referred to in paragraph 24 hereof, including the date of mailing and excluding the date of the hearing.

21. THIS COURT ORDERS that any notice to be given pursuant to paragraphs 16 to 20 of this Order shall be adequately given if given in either the French or English language according to the usual practices of BCE and Nortel Networks, as the case may be.

Dissent Rights

22. THIS COURT ORDERS that BCE Common Shareholders shall be permitted to dissent from the arrangement pursuant to section 190 of the CBCA as modified by the terms of the Plan of Arrangement and to seek fair value for their BCE Common Shares, so long as they provide to BCE written objection to the BCE Arrangement Resolution and the Plan of Arrangement at or before the BCE Meeting and they otherwise strictly comply with the requirements of section 190 of the CBCA and the Plan of Arrangement.
23. THIS COURT ORDERS that Nortel Networks Common Shareholders shall be permitted to dissent from the arrangement pursuant to section 190 of the CBCA as modified by the terms of the Plan of Arrangement and to seek fair value for their Nortel Networks Common Shares, so long as they provide to Nortel Networks written objection to the Nortel Arrangement Resolution and the Plan of Arrangement at or before the Nortel Networks Meeting and they otherwise strictly comply with the requirements of section 190 of the CBCA and the Plan of Arrangement.

Application for Approval of Plan

24. THIS COURT ORDERS that following the BCE Meeting and the Nortel Networks Meeting held in the manner set forth in this Order, BCE and Nortel Networks may apply before this Court, at 4:00 p.m. on April 28, 2000 or such other date, time and place as may be set by the Court upon motion by BCE and Nortel Networks, for approval of the Plan of Arrangement and that service of the Notice of Application herein, in accordance with paragraphs 16 to 21 of this Order, shall constitute good and sufficient service of such Notice of Application upon all persons who are entitled to receive such Notice of Application pursuant to this Order and no other form of service need be made and no other material need be served on such persons in respect of these proceedings, unless a notice of appearance is served on BCE’s solicitors or Nortel Networks’ solicitors, in which case BCE and Nortel Networks shall serve such person with notice of the date of the application for approval, together with a copy of any additional materials to be used in support of such application.
25. THIS COURT ORDERS that any party who wishes to oppose the application for approval of the Plan of Arrangement shall serve upon BCE’s solicitors and Nortel Networks’ solicitors and upon the other parties who have filed a notice of appearance a notice setting out the basis for such opposition and a copy of the materials to be used to oppose the application at least 5 days before the date set for the application for approval of the Plan of Arrangement or such shorter time as the Court, by order, may allow.

Further Motions

26. THIS COURT ORDERS that any affected party may apply for further interim relief or other order on not less than 3 days’ notice to BCE and Nortel Networks and all other parties appearing in these proceedings.

“Sue Seto”

Registrar
Superior Court of Justice

ANNEX F

AMENDED AND RESTATED ARRANGEMENT AGREEMENT

THIS AGREEMENT made as of January 26, 2000, as amended and restated March 13, 2000.

AMONG:

BCE INC., a corporation governed by the *Canada Business Corporations Act*

(hereinafter, "**BCE**"),

– and –

3056074 CANADA INC., a corporation governed by the *Canada Business Corporations Act*

(hereinafter, "**Stockco**"),

– and –

3263207 CANADA INC., a corporation governed by the *Canada Business Corporations Act*

(hereinafter, "**3263207**"),

– and –

NEW NORTEL INC., a corporation governed by the *Canada Business Corporations Act*

(hereinafter, "**New Nortel**"),

– and –

NORTEL NETWORKS CORPORATION, a corporation governed by the *Canada Business Corporations Act*

(hereinafter, "**Nortel Networks**").

WHEREAS each of BCE and Nortel Networks intends to propose to its common shareholders, at the BCE Meeting and the Nortel Networks Meeting, respectively, a statutory plan of arrangement under section 192 of the CBCA on the terms of the Plan of Arrangement annexed as Appendix I hereto;

AND WHEREAS each of Stockco and 3263207 is a wholly-owned subsidiary of BCE and has agreed to participate in the Arrangement on the terms and conditions set forth herein;

AND WHEREAS New Nortel has been incorporated in order to participate in the Arrangement on the terms and conditions set forth herein;

AND WHEREAS BCE, directly and through Stockco and 3263207, owns a number of common shares of Nortel Networks that as of December 31, 1999 amounted to approximately 39.2% of the total of such common shares outstanding;

AND WHEREAS the parties hereto, other than New Nortel, entered into an arrangement agreement on January 26, 2000 which contemplated that New Nortel would be incorporated and would become a party to the arrangement agreement, which would be amended and restated to reflect the addition of New Nortel as a party and other modifications;

AND WHEREAS the Parties wish to record the following as the Amended and Restated Arrangement Agreement;

NOW THEREFORE THIS AGREEMENT WITNESSES that, in consideration of the premises and the covenants and agreements herein contained and other good and valuable consideration the receipt and sufficiency of which are hereby acknowledged by each of the Parties to the others, the Parties covenant and agree as follows:

ARTICLE 1

INTERPRETATION

1.1 Definitions.

In this Agreement the following terms have the following meanings, respectively:

“Agreement” means this amended and restated arrangement agreement including the Appendices hereto and all amendments made hereto;

“Aptis Agreement” means the agreement and plan of merger, dated as of March 18, 1998, as amended as of April 21, 1998, among Aptis Communications, Inc. (“Aptis”), Nortel Networks and AJ Communications Inc., a Delaware corporation and a wholly-owned subsidiary of Nortel Networks, and the shareholders of Aptis;

“Arrangement” means the proposed arrangement under the provisions of section 192 of the CBCA, on and subject to the terms and conditions set forth in the Plan of Arrangement and any amendment thereto made in accordance with section 6.1 hereof;

“Arrangement Circular” means the Notice of Application and Joint Arrangement Circular incorporated into and forming part of the management proxy circulars of each of BCE and Nortel Networks to be sent to shareholders of each of BCE and Nortel Networks in connection with the Meetings;

“BCE Amalgamation” means the amalgamation referred to in subsection 2.2(a) of the Plan of Arrangement;

“BCE Common Shares” means the common shares of BCE, both before and after the BCE Amalgamation;

“BCE Common Shareholders” means the holders of BCE Common Shares;

“BCE Dissenting Shareholder” means a BCE Common Shareholder who exercises such holder’s dissent rights described in section 3.1 of the Plan of Arrangement;

“BCE Existing Option” means an option to purchase BCE Common Shares granted by BCE pursuant to the BCE 1985 SOP or the BCE 1999 SOP and outstanding immediately prior to the Effective Time;

“BCE Meeting” means the meeting of holders of BCE Common Shares called for April 26, 2000, and any adjournments or postponements thereof, to be held for the purpose of considering, and if thought fit, approving the Arrangement;

“BCE 1985 SOP” means the BCE Inc. Long-Term Incentive Stock Option Program (1985), as amended;

“BCE 1999 SOP” means the BCE Inc. Long-Term Incentive Stock Option Program (1999), as amended;

“BCE Optionholders” means those persons who immediately prior to the Effective Time hold BCE Existing Options;

“BCE Replacement Option” means an option to purchase BCE Common Shares issued pursuant to subsection 2.2(b) of the Plan of Arrangement;

“Business Day” means a day other than a Saturday, Sunday or day on which Canadian chartered banks are authorized or required by law to be closed at their offices in Toronto, Ontario or Montréal, Québec;

“CBCA” means the *Canada Business Corporations Act*;

“Claim” means any act, omission or state of facts, or any demand, action, suit, proceeding, claim, assessment, judgment, settlement or other compromise relating thereto, which may give rise to a right of indemnification under Article 5;

“Clarify Agreement” means the agreement and plan of merger dated as of October 18, 1999, among Clarify Inc. (“Clarify”), Nortel Networks and Northern Crown Subsidiary, Inc., a Delaware corporation and a wholly-owned subsidiary of Nortel Networks, pursuant to which, among other things: (a) Northern Crown Subsidiary, Inc. will merge

with and into Clarify, with Clarify being the surviving corporation in the merger and becoming a wholly-owned subsidiary of Nortel Networks as a result of the merger; and (b) each outstanding share of common stock of Clarify will be converted into the right to receive 1.3 Nortel Networks Common Shares, subject to adjustments in certain circumstances;

“Court” means the Superior Court of Justice of Ontario, unless otherwise agreed to between BCE and Nortel Networks;

“Direct Claim” means any Claim by an Indemnified Party against an Indemnifier;

“Effective Date” means the effective date of the Arrangement, being the date shown on the certificate of arrangement to be issued by the Director under the CBCA giving effect to the Arrangement;

“Effective Time” means the earliest possible moment on the Effective Date;

“Encumbrances” means mortgages, charges, pledges, liens, hypothecs, security interests, encumbrances, adverse claims and rights of third parties to acquire or restrict the use of property;

“Final Order” means the final order of the Court approving the Arrangement;

“Indemnified Party” means BCE, New Nortel or Nortel Networks, insofar as it is entitled to indemnification under Article 5;

“Indemnifier” means BCE, New Nortel or Nortel Networks, insofar as it is obligated to provide indemnification under Article 5;

“Indemnity Payment” means the amount of any Loss required to be paid by an Indemnifier pursuant to section 5.1, 5.2 or 5.3;

“Interim Order” means the interim order of the Court to be issued pursuant to the application referred to in section 3.7;

“Loss” means any and all loss, liability, damage, cost, expense, charge, fine, penalty or assessment arising from and pertaining to this Agreement, including Taxes, the reasonable out-of-pocket costs and expenses of any action, suit, proceeding, demand, assessment, judgment, settlement or compromise relating thereto, fines and penalties and reasonable legal fees (on a solicitor and its own client basis) and expenses incurred in connection therewith, excluding loss of profits and consequential damages;

“Meetings” means the BCE Meeting and the Nortel Networks Meeting;

“New Nortel/BCE Option” means an option to purchase New Nortel Common Shares to be issued in exchange for a Stockco/BCE Option pursuant to subsection 2.2(l) of the Plan of Arrangement;

“New Nortel Common Shares” means the common shares of New Nortel;

“New Nortel Share Split” means the subdivision of the New Nortel Common Shares on a two-for-one basis to occur pursuant to subsection 2.2(t) of the Plan of Arrangement;

“New Nortel Subco” means 3721621 Canada Inc., a wholly-owned subsidiary of New Nortel governed by the CBCA;

“Nortel Networks Common Shares” means the common shares of Nortel Networks;

“Nortel Networks Common Shareholders” means the holders of Nortel Networks Common Shares;

“Nortel Networks Dissenting Shareholder” means a Nortel Networks Common Shareholder who exercises such holder’s dissent rights described in section 3.1 of the Plan of Arrangement;

“Nortel Networks Meeting” means the meeting of holders of Nortel Networks Common Shares called for April 27, 2000, and any adjournments or postponements thereof, to be held for the purpose of considering, and if thought fit, approving the Arrangement;

“Nortel Networks Plans” means:

- (a) the Nortel Networks Corporation 1986 Stock Option Plan As Amended and Restated;

- (b) the Nortel Networks Corporation Shareholder Dividend Reinvestment and Stock Purchase Plan, as amended;
- (c) the Amended and Restated Nortel Networks NA, Inc. 1994 Stock Option Plan;
- (d) the Periphonics Corporation 1995 Stock Option Plan, as amended;
- (e) the Periphonics Corporation 1995 Non-Employee Director Stock Option Plan, as amended;
- (f) in the event that the merger contemplated by the Clarify Agreement has been completed by the Effective Date,
 - (i) the Clarify Inc. 1999 Non-Executive Stock Option/Stock Issuance Plan,
 - (ii) the Clarify Inc. Amended and Restated 1995 Stock Option/Stock Issuance Plan,
 - (iii) the Clarify Inc. Non-Employee Directors Option Plan,
 - (iv) the Clarify Inc. 1991 Stock Option/Stock Issuance Plan,
 - (v) the Objix Systems Development, Inc. Stock Plan, as amended, and
 - (vi) the separate stock option agreements listed on Schedule 3.07 of the Clarify Agreement;
- (g) in the event that the merger contemplated by the Promatory Agreement has been completed by the Effective Date, the Promatory Communications, Inc. 1997 Stock Plan, as amended, and the Promatory Communications, Inc. 1999 Stock Plan, as amended;
- (h) the Qtera Corporation Amended and Restated Stock Incentive Plan and the outstanding warrants to purchase shares of common stock listed in Sections 2.2 and 4.1 of the Disclosure Schedule to the Qtera Agreement;
- (i) the Nortel Networks 2000 Stock Option Plan, provided that it shall have been approved by the Nortel Networks Common Shareholders at the Nortel Networks Meeting; and
- (j) any other stock plans of Nortel Networks in place prior to the Effective Date which by their terms or determination by the board of directors of Nortel Networks are to be assumed by New Nortel;

“Party” means a party to this Agreement;

“Plan of Arrangement” means the plan of arrangement set out as Appendix I hereto as the same may be amended from time to time in accordance with the terms hereof;

“Prime Rate” means the floating rate of interest established from time to time by Royal Bank of Canada (the “Bank”) (and reported to the Bank of Canada) as the reference rate of interest the Bank will use to determine rates of interest payable by its borrowers on Canadian dollar commercial loans made by the Bank to such borrowers in Canada and designated by the Bank as its “prime rate”;

“Promatory Agreement” means the agreement and plan of merger, dated as of January 5, 2000, as amended, among Promatory Communications, Inc. (“Promatory”), and certain principal shareholders of Promatory, Nortel Networks and NNC Panther Acquisition Corporation, a Delaware corporation and a wholly-owned subsidiary of Nortel Networks, pursuant to which, among other things: (a) NNC Panther Acquisition Corporation will merge with and into Promatory, with Promatory being the surviving corporation in the merger and becoming a wholly-owned subsidiary of Nortel Networks as a result of the merger; and (b) each outstanding share of common stock of Promatory will be converted into the right to receive Nortel Networks Common Shares in accordance with the formula provided for in such agreement;

“PUC” means paid-up capital as defined in subsection 89(1) of the Tax Act;

“Qtera Agreement” means the agreement and plan of merger, dated as of December 14, 1999, as amended, among Qtera Corporation (“Qtera”), Nortel Networks and NNC Acquisition Corporation (“NNC”), a Delaware corporation and a wholly-owned subsidiary of Nortel Networks, pursuant to which, among other things: (a) NNC merged with and into Qtera, with Qtera being the surviving corporation in the merger and becoming a wholly-owned subsidiary of Nortel Networks as a result of the merger; and (b) each outstanding share of common stock and preferred stock of Qtera was converted into the right to receive Nortel Networks Common Shares in accordance with the formula provided for in such agreement;

“Regulatory Fees” means fees paid or payable to governmental regulatory bodies and self-regulatory bodies (such as stock exchanges) to make filings or applications or obtain rulings, orders or listings necessary or desirable in connection with the Arrangement;

“Retained Nortel Networks Plans” means:

- (a) the Nortel Networks Corporation Directors’ Deferred Share Compensation Plan;
- (b) the Nortel Networks Corporation Restricted Stock Unit Plan;
- (c) the Nortel Networks Global Employee Stock Purchase Plan;
- (d) the Nortel Networks Corporation Investment Plan for Employees — Canada;
- (e) the Nortel Networks Long-Term Investment Plan;
- (f) the February 29, 1996, February 27, 1997, January 29, 1998 and May 28, 1999 resolutions of the board of directors of Nortel Networks regarding grants of synthetic stock options;
- (g) the Nortel Networks Stock Purchase Plan;
- (h) the Bay Networks, Inc. 1998 Employee Stock Purchase Plan;
- (i) the Bay Networks 1998 Employee Stock Purchase Plan for Employees of Non-U.S. Affiliates of Bay Networks, Inc.; and
- (j) any other stock plans of Nortel Networks in place prior to the Effective Date (excluding any stock plan described in clause (j) of the definition of Nortel Networks Plans);

“Retained Shares” means the number of New Nortel Common Shares to be held by BCE immediately after and consequent upon completion of the Arrangement (but prior to the New Nortel Share Split), to be determined in accordance with subsection 3.1(e) and expected to be 30,000,000;

“Revenue Canada” means the Canada Customs and Revenue Agency;

“Revenue Québec” means the Ministère du Revenu du Québec;

“Rulings Applications” means the following letter submissions made to Revenue Canada and/or Revenue Québec:

- (a) to Revenue Canada by Osler, Hoskin & Harcourt LLP: November 5, 1999; December 2, 1999; December 13, 1999; December 14, 1999; December 20, 1999; January 6, 2000; January 7, 2000; January 11, 2000; January 13, 2000; January 17, 2000; January 24, 2000; February 7, 2000; February 14, 2000 and February 21, 2000;
- (b) to Revenue Canada by Ogilvy Renault: January 6, 2000; January 7, 2000; January 11, 2000; January 14, 2000; January 19, 2000; January 24, 2000 and January 25, 2000;
- (c) to Revenue Canada by BCE: March 1, 2000; and
- (d) to Revenue Québec by Ogilvy Renault: January 17, 2000; January 25, 2000; February 15, 2000; March 5, 2000 and March 6, 2000,

and any letter submissions concerning the subject matter hereof made to Revenue Canada or Revenue Québec by any Party or a Party’s advisors on or subsequent to the date hereof and prior to the Effective Date;

“Specified Corporation” shall have the meaning given to it in the proposed amendment to subsection 55(1) of the Tax Act contained in the draft technical income tax amendments released by the Minister of Finance on November 30, 1999 or in such amendment as it may ultimately be enacted into law;

“Stockco/BCE Option” means an option to purchase Stockco Common Shares to be issued pursuant to subsection 2.2(b) of the Plan of Arrangement;

“Stockco Common Shares” means the common shares of Stockco;

“Stockco Preferred Shares” means preferred shares of Stockco, to which are attached the rights, privileges, restrictions and conditions set out in Appendix II;

“Tax Act” means the *Income Tax Act* (Canada);

“Taxes” includes all applicable present and future income taxes, capital taxes, stamp taxes, charges to tax, withholdings, sales and use taxes, value added taxes and goods and services taxes and all penalties, interest and other payments on or in respect thereof;

“Tax Gross Up” means, with respect to any particular Indemnity Payment, such additional amount as is necessary to place the Indemnified Party in the same after tax position as it would have been in had such Indemnity Payment been received tax free. The Tax Gross Up amount shall be calculated by using the combined federal and provincial income tax rate applicable to the Indemnified Party and, except as provided in section 5.10, without regard to any losses, credits, refunds or deductions that the Indemnified Party may have which could affect the amount of tax payable on any such Indemnity Payment;

“Tax Rulings” means the advance income tax rulings dated March 3, 2000 received from Revenue Canada and any amendments thereto to be received from Revenue Canada in form and substance satisfactory to BCE and Nortel Networks acting reasonably, confirming the Canadian federal income tax consequences of certain aspects of the Arrangement, and the advance income tax rulings dated March 10, 2000 received from Revenue Québec and any amendments thereto to be received from Revenue Québec in form and substance satisfactory to BCE and Nortel Networks acting reasonably, confirming the Québec income tax consequences of certain aspects of the Arrangement;

“Third Party Claim” means any Claim asserted against an Indemnified Party that is paid or payable to or claimed by any person who is not a Party; and

“Transaction Costs” means all reasonable out-of-pocket costs and expenses relating to the Arrangement and the transactions contemplated in this Agreement, including financial advisory or investment banking, accounting and legal fees and expenses, costs relating to the preparation, printing and distribution of the Arrangement Circular and the calling and holding of and solicitation of proxies for the Meetings (over and above the amount of such costs that would be incurred by BCE or Nortel, as the case may be, in the ordinary course in connection with its annual meeting of shareholders) and costs of obtaining the Tax Rulings, but specifically excluding costs, expenses and payment obligations incurred in connection with (a) the exercise by shareholders of BCE and Nortel Networks of dissent rights described in section 3.1 of the Plan of Arrangement, (b) the obligation to indemnify in Article 5 and (c) the New Nortel Share Split.

1.2 Appendices.

The following appendices are attached to this Agreement and form part hereof:

Appendix I — Plan of Arrangement;

Appendix II — Stockco Preferred Shares.

1.3 Construction.

In this Agreement, unless otherwise expressly stated or the context otherwise requires:

- (a) references to “herein”, “hereby”, “hereunder”, “hereof” and similar expressions are references to this Agreement and not to any particular Article, section, subsection, clause or Appendix;
- (b) references to an “Article”, “section”, “subsection”, “clause” or “Appendix” are references to an Article, section, subsection, clause or Appendix of or to this Agreement;
- (c) words importing the singular shall include the plural and *vice versa*, words importing gender shall include the masculine, feminine and neuter genders, and references to a “person” or “persons” shall include individuals, corporations, partnerships, associations, bodies politic and other entities, all as may be applicable in the context;
- (d) the use of headings is for convenience of reference only and shall not affect the construction or interpretation hereof;
- (e) the word “including”, when following any general term or statement, is not to be construed as limiting the general term or statement to the specific items or matters set forth or to similar items or matters, but as

referring to all other items or matters that could reasonably fall within the broadest possible scope of the general term or statement; and

- (f) a reference to a statute or code includes every regulation made pursuant thereto, all amendments to the statute or code or to any such regulation in force from time to time, and any statute, code or regulation which supplements or supersedes such statute, code or regulation.

1.4 Currency.

All references to currency herein are to lawful money of Canada unless otherwise specified.

ARTICLE 2

REPRESENTATIONS AND WARRANTIES

2.1 Mutual Representations and Warranties.

Each Party represents and warrants to each other Party as follows, and acknowledges that each such Party is relying upon such representations and warranties in connection with the matters contemplated by this Agreement:

- (a) it is duly incorporated, amalgamated or continued and is validly existing under the CBCA and has the corporate power and authority to enter into this Agreement and, subject to obtaining the requisite approvals contemplated hereby, to perform its obligations hereunder;
- (b) the execution and delivery of this Agreement by it and the completion by it of the transactions contemplated herein, in the Plan of Arrangement and in the Tax Rulings do not and will not:
 - (i) result in the breach of, or violate any term or provision of, its articles or by-laws;
 - (ii) except as disclosed in the disclosure schedule which has been initialled by BCE and Nortel Networks prior to execution of this Agreement, conflict with, result in the breach of, constitute a default under, or accelerate or permit the acceleration of the performance required by, any agreement, instrument, licence, permit or authority to which it is a party or by which it is bound and which is material to it, or to which any material property of such Party is subject, or result in the creation of any Encumbrance upon any of its material assets under any such agreement or instrument, or give to others any material interest or right, including rights of purchase, termination, cancellation or acceleration, under any such agreement, instrument, licence, permit or authority; or
 - (iii) violate any provision of law or administrative regulation or any judicial or administrative award, judgment, order or decree applicable and known to it, the breach of which would have a material adverse effect on it;
- (c) there are no actions, suits, proceedings or investigations commenced, contemplated or threatened against or affecting it, at law or in equity, before or by a governmental department, commission, board, bureau, court, agency, arbitrator or instrumentality, domestic or foreign, of any kind nor are there any existing facts or conditions which may reasonably be expected to form a proper basis for any actions, suits, proceedings or investigations, which, in any case, would prevent or hinder the consummation of the transactions contemplated by this Agreement or the Tax Rulings;
- (d) no dissolution, winding up, bankruptcy, liquidation or similar proceeding has been commenced or is pending or proposed in respect of it, except as contemplated by the Plan of Arrangement; and
- (e) the execution and delivery of this Agreement and the completion of the transactions contemplated herein, in the Plan of Arrangement and in the Tax Rulings have been duly approved by its board of directors (and the sole shareholder, in the cases of Stockco and 3263207) and this Agreement constitutes a valid and binding obligation of such Party enforceable against it in accordance with its terms, subject to bankruptcy, insolvency and other laws affecting the enforcement of creditors' rights generally and to general principles of equity and limitations upon the enforcement of indemnification for fines or penalties imposed by law.

2.2 Representations and Warranties of BCE.

BCE represents and warrants to and in favour of each of Nortel Networks and New Nortel as follows, and acknowledges that each of them is relying upon such representations and warranties in connection with the matters contemplated by this Agreement:

- (a) the authorized capital of BCE consists of an unlimited number of BCE Common Shares, an unlimited number of first preferred shares, issuable in series, of which 13 series have been authorized, and an unlimited number of second preferred shares, issuable in series, of which three series have been authorized. As of December 31, 1999, the issued and outstanding share capital of BCE consisted of 643,804,984 BCE Common Shares, no second preferred shares and the following series of first preferred shares:

<u>Series</u>	<u>Authorized</u>	<u>Outstanding</u>
P	16,000,000	16,000,000
Q	8,000,000	8,000,000
S	8,000,000	8,000,000
U	22,000,000	14,000,000
W	20,000,000	12,000,000
Y	10,000,000	10,000,000

- (b) at the date hereof, no person holds any securities convertible into BCE Common Shares or any other shares of BCE or has any agreement, warrant, option or any other right capable of becoming an agreement, warrant or option for the purchase or other acquisition of any unissued shares of BCE, other than:
- (i) the holders of the first preferred shares, Series P pursuant to the terms thereof (subject, however, to a proposed amendment to the terms of such shares to be considered at a meeting of holders called for March 14, 2000);
 - (ii) participants in the Employees' Savings Plan (1970) pursuant to the terms thereof;
 - (iii) participants in BCE's Shareholder Dividend Reinvestment Plan and Stock Purchase Plan pursuant to the terms thereof;
 - (iv) the holders of BCE Existing Options. As of December 31, 1999 there were 5,271,613 BCE Existing Options outstanding under the BCE 1985 SOP and 495,399 BCE Existing Options outstanding under the BCE 1999 SOP, and the aggregate number of BCE Existing Options outstanding under such plans at the Effective Date will not exceed 5,900,000 and the number of New Nortel Common Shares issuable pursuant to the exercise of New Nortel/BCE Options to be issued pursuant to subsection 2.2(l) of the Plan of Arrangement will not exceed 5,000,000;
 - (v) pursuant to the rights issued to BCE Common Shareholders in accordance with the Shareholder Rights Plan Agreement dated February 23, 2000 between BCE and Montreal Trust Company; and
 - (vi) pursuant to an agreement dated February 15, 2000 whereby BCE has agreed to acquire, in exchange for BCE Common Shares, the common shares of Teleglobe Inc. that BCE and its affiliates do not already own.
- (c) BCE is the legal and beneficial owner of 529,854,492 Nortel Networks Common Shares with good and marketable title thereto, free and clear of all Encumbrances; and
- (d) the facts and other information in the Tax Rulings, except for facts and other information which pertain to Nortel Networks, and all statements in reference to BCE, 3263207, Stockco and (with respect to matters within BCE's knowledge) New Nortel and New Nortel Subco made to Revenue Canada or Revenue Québec in the Rulings Applications, are accurate in all material respects and there has been no omission to state a material fact or to provide other material information relating to BCE, 3263207, Stockco or (with respect to matters within BCE's knowledge) New Nortel or New Nortel Subco to Revenue Canada or Revenue Québec that would be relevant to the grant of the Tax Rulings.

2.3 Representations and Warranties of BCE and 3263207.

BCE and 3263207 jointly and severally represent and warrant to and in favour of Nortel Networks and New Nortel as follows, and acknowledge that each of them is relying upon such representations and warranties in connection with the matters contemplated by this Agreement:

- (a) the authorized capital of 3263207 consists of an unlimited number of common shares, of which 150,133,912.16 common shares are issued and outstanding and held by BCE free and clear of all Encumbrances;
- (b) no person holds any securities convertible into common shares of 3263207 or any other shares of 3263207 or has any agreement, warrant, option or any other right capable of becoming an agreement, warrant or option for the purchase or other acquisition of any unissued shares of 3263207; and
- (c) 3263207 is the legal and beneficial owner of 7,000,000 Nortel Networks Common Shares with good and marketable title thereto, free and clear of all Encumbrances.

2.4 Representations and Warranties of BCE and Stockco.

BCE and Stockco jointly and severally represent and warrant to and in favour of Nortel Networks and New Nortel as follows, and acknowledge that each of them is relying upon such representations and warranties in connection with the matters contemplated by this Agreement:

- (a) the authorized capital of Stockco consists of an unlimited number of Stockco Common Shares of which 106,782,251.46 Stockco Common Shares are issued and outstanding and held by BCE free and clear of all Encumbrances;
- (b) no person holds any securities convertible into Stockco Common Shares or any other shares of Stockco or has any agreement, warrant, option or any other right capable of becoming an agreement, warrant or option for the purchase or other acquisition of any unissued shares of Stockco except as contemplated by this Agreement;
- (c) Stockco is the legal and beneficial owner of 3,000,000 Nortel Networks Common Shares with good and marketable title thereto, free and clear of all Encumbrances and Stockco has no other assets; and
- (d) Stockco will have no liabilities at the Effective Date.

2.5 Representations and Warranties of Nortel Networks.

Nortel Networks represents and warrants to and in favour of BCE, 3263207 and Stockco as follows, and acknowledges that each of them is relying upon such representations and warranties in connection with the matters contemplated by this Agreement:

- (a) the authorized capital of Nortel Networks consists of an unlimited number of Nortel Networks Common Shares and an unlimited number of Class A Preferred Shares ("Class A Preferred Shares") issuable in series and an unlimited number of Class B Preferred Shares issuable in series. As of December 31, 1999, 1,377,154,698 Nortel Networks Common Shares were issued and outstanding. As of December 31, 1999 there were also issued and outstanding shares of three series of Class A Preferred Shares, as follows:
 - (i) 200 Cumulative Redeemable Class A Preferred Shares Series 4;
 - (ii) 16,000,000 Cumulative Redeemable Class A Preferred Shares Series 5; and
 - (iii) 14,000,000 Non-cumulative Redeemable Class A Preferred Shares Series 7;
- (b) at the date hereof no person holds any securities convertible into Nortel Networks Common Shares or any other shares of Nortel Networks or has any agreement, warrant, option or any other right capable of becoming an agreement, warrant or option for the purchase or other acquisition of any unissued shares of Nortel Networks other than:
 - (i) as described in or granted or awarded pursuant to any Nortel Networks Plans (excluding clause (k) of the definition of Nortel Networks Plans) or the Retained Nortel Networks Plans (excluding clause (j) of the definition of Retained Nortel Networks Plans);
 - (ii) pursuant to the earnout provisions of the Aptis Agreement, the Promatory Agreement and the Qtera Agreement;

- (iii) as provided by the merger provisions of the Clarify Agreement and the Promatory Agreement;
 - (iv) the exchange right attached to the Cumulative Redeemable Class A Preferred Shares Series 4; and
 - (v) the holders of the Cumulative Redeemable Class A Preferred Shares Series 5 and the Non-cumulative Redeemable Class A Preferred Shares Series 7;
- (c) to the best of Nortel Networks' knowledge, if it is assumed that no Class A Preferred Shares are issued and outstanding, there is no "specified shareholder" (as such term is defined for purposes of paragraph 55(3.1)(b) of the Tax Act) of Nortel Networks other than BCE and persons not dealing at "arm's length" (as such term is defined in section 251 of the Tax Act) with BCE; and
 - (d) the facts and other information in the Tax Rulings, except for facts and other information which pertain to BCE, 3263207 and Stockco, and all statements in reference to Nortel Networks and (with respect to matters within Nortel Networks' knowledge) New Nortel and New Nortel Subco made to Revenue Canada or Revenue Québec in the Rulings Applications are accurate in all material respects and there has been no omission to state a material fact or to provide other material information relating to Nortel Networks or (with respect to matters within Nortel Networks' knowledge) New Nortel or New Nortel Subco to Revenue Canada or Revenue Québec that would be relevant to the grant of the Tax Rulings.

2.6 Representations and Warranties of New Nortel.

New Nortel represents and warrants to and in favour of each of the other Parties and acknowledges that each such Party is relying upon such representations and warranties in connection with the matters contemplated by this Agreement, that:

- (a) the authorized share capital, and the rights, privileges, restrictions and conditions of the respective classes of authorized shares, of New Nortel are the same as those of Nortel Networks;
- (b) there are no shares of New Nortel outstanding;
- (c) New Nortel has no assets, its liabilities are limited to \$1.00 and it has carried on no business; and
- (d) New Nortel has caused New Nortel Subco to be incorporated under the CBCA with an authorized capital consisting of a single class of shares.

2.7 Survival of Representations and Warranties.

The representations and warranties in this Agreement shall survive the Effective Date.

ARTICLE 3

COVENANTS

3.1 General Covenants.

Each of the Parties covenants with the other Parties that it will:

- (a) use all commercially reasonable efforts and do all things reasonably required of it to cause the Arrangement to become effective on or before May 1, 2000, or such other date as BCE and Nortel Networks may agree;
- (b) do and perform all such acts and things, and execute and deliver all such agreements, assurances, notices and other documents and instruments as may reasonably be required to facilitate the carrying out of the intent and purpose of this Agreement;
- (c) cooperate with and assist the other Parties, both before and after the Effective Date, in dealing with transitional matters relating to or arising from the Arrangement;
- (d) cooperate prior to the Effective Date in applying for such amendments to the Tax Rulings, amending the Rulings Applications and making amendments to this Agreement as may be necessary to obtain the Tax Rulings or to implement the Plan of Arrangement or as may be desired by BCE or Nortel Networks to enable them to carry out transactions deemed advantageous by them for their businesses, provided that obtaining such amendments would not unduly delay completion of the Arrangement pursuant to the terms hereof; and

- (e) agree prior to the Effective Time on the number of Retained Shares, such number not to exceed 30,000,000 and to be fixed to ensure that the transaction in subsection 2.2(i) of the Plan of Arrangement does not result in an acquisition of control of New Nortel (otherwise than as a result of a permitted exchange within the meaning of subsection 55(1) of the Tax Act) by a person or group of persons for purposes of the Tax Act; it being understood for this purpose that an acquisition of control of New Nortel would occur if the aggregate number of New Nortel Common Shares exchanged for Nortel Networks Common Shares pursuant to subsection 2.2(i) of the Plan of Arrangement plus the number of Retained Shares were to be equal to or greater than 66.266% of the New Nortel Common Shares outstanding immediately after the New Nortel Amalgamation (as defined in the Plan of Arrangement).

3.2 **Covenants of BCE.**

BCE hereby covenants and agrees with each of the other Parties that it will:

- (a) until the Effective Date, not perform any act or enter into any transaction which interferes or is inconsistent with the completion of the Arrangement or the grant of the Tax Rulings or their effective application to the Arrangement;
- (b) until the Effective Date, refrain from disposing of, or suffering or permitting the creation of any Encumbrance on, any of its Nortel Networks Common Shares except as specifically contemplated hereby and refrain from acquiring any additional Nortel Networks Common Shares;
- (c) as soon as practicable, prepare its portion of the Arrangement Circular and, subject to receipt of the Tax Rulings and the Interim Order, convene the BCE Meeting;
- (d) in a timely and expeditious manner, file the Arrangement Circular in all jurisdictions where the same is required to be filed by it and mail the same to the BCE Common Shareholders in accordance with the Interim Order and applicable law and solicit proxies to be voted at the BCE Meeting in favour of the Arrangement;
- (e) ensure that the information set forth in the Arrangement Circular relating to BCE, its subsidiaries (if applicable), 3263207 and Stockco and their respective businesses and properties and the effect of the Plan of Arrangement thereon will be true, correct and complete in all material respects and will not contain any untrue statement of any material fact or omit to state any material fact required to be stated therein or necessary in order to make the statements therein not misleading in light of the circumstances in which they are made;
- (f) prior to the Effective Date, cause Stockco's articles of incorporation to be amended to create the Stockco Preferred Shares;
- (g) immediately prior to the Effective Date and in contemplation of the Plan of Arrangement, cause 3263207 to transfer to Stockco, with good and marketable title free and clear of all Encumbrances, all of the Nortel Networks Common Shares owned by 3263207 in consideration for the issuance to 3263207 of Stockco Preferred Shares with a fair market value equal to the fair market value of the transferred Nortel Networks Common Shares at the time of the transfer;
- (h) immediately prior to the Effective Date and in contemplation of the Plan of Arrangement, transfer to Stockco all of the Nortel Networks Common Shares owned by BCE in consideration for:
 - (i) the obligation of Stockco to transfer to BCE any amounts received by Stockco in the future in respect of the exercise of the Stockco/BCE Options (or any options exchanged therefor), including amounts received from BCE pursuant to its exercise of the rights referred to in clause (ii) immediately below as and when received by Stockco;
 - (ii) the right of BCE to exercise in the future any otherwise forfeited or expired Stockco/BCE Options (or options exchanged therefor), such right to be exercisable by BCE in accordance with the plans and agreements relating to the BCE/Stockco Options; and
 - (iii) the issuance by Stockco of Stockco Common Shares with a fair market value not exceeding the fair market value of the transferred Nortel Networks Common Shares at the time of the transfer less the fair market value of the consideration referred to in clauses (i) and (ii) of this subsection;

- (i) jointly elect with Stockco, in prescribed form and within the time allowed by subsection 85(6) of the Tax Act, to have the provisions of subsection 85(1) of the Tax Act (and corresponding provisions of any applicable provincial tax legislation) apply to the transfer by BCE to Stockco of the Nortel Networks Common Shares. The agreed amount in respect of the transfer will be equal to the cost amount of such shares to BCE for purposes of the Tax Act at the time of disposition;
- (j) contemporaneous with the transfer referred to in subsection 3.2(h), transfer to Stockco cash or short-term investments in an amount to be agreed between BCE and Nortel Networks, each acting reasonably, representing the sum of (i) estimated Transaction Costs (subject to a maximum of US\$25,000,000 or the Canadian dollar equivalent thereof) plus (ii) 50% of estimated Regulatory Fees, incurred or to be incurred by Nortel Networks and New Nortel, the whole in consideration for the issuance by Stockco of Stockco Common Shares with a fair market value equal to the fair market value of the transferred cash or short-term investments. In the event that the amount so transferred is less than the Transaction Costs and 50% of the Regulatory Fees actually incurred by Nortel Networks and New Nortel, then BCE shall pay to New Nortel the amount of the deficiency (but still subject to the maximum expressed in respect of Transaction Costs);
- (k) in its discretion, cause Stockco to increase the stated capital of the Stockco Common Shares and the Stockco Preferred Shares in the manner set out below in subsections 3.4(j) and (k);
- (l) cause Stockco to amend its articles of incorporation so as to change the number of issued and outstanding Stockco Common Shares into a smaller number of Stockco Common Shares so that, after such amendment, the number of issued and outstanding Stockco Common Shares will be equal to 532,854,492;
- (m) perform the obligations required to be performed by it under the Plan of Arrangement and do all such other acts and things as may be necessary or desirable and are within its power and control in order to carry out and give effect to the Arrangement and any transactions necessary for the effectiveness of the Tax Rulings, including using all commercially reasonable efforts to obtain:
 - (i) the approval of BCE Common Shareholders required for the implementation of the Arrangement;
 - (ii) the Interim Order and Final Order;
 - (iii) approval for the continued listing of the BCE Common Shares after the BCE Amalgamation on the Toronto and New York stock exchanges;
 - (iv) such other consents, orders, rulings or approvals and assurances as its counsel may advise are necessary or desirable for the implementation of the Arrangement, including those referred to in section 4.1; and
 - (v) satisfaction of the other conditions precedent referred to in sections 4.1 and 4.2.

3.3 Covenants of 3263207.

3263207 hereby covenants and agrees with each of the other Parties that it will:

- (a) until the Effective Date, not carry on business except as otherwise contemplated by this Agreement or the Tax Rulings;
- (b) until the Effective Date, not perform any act or enter into any transaction which interferes or is inconsistent with the completion of the Arrangement or the grant of the Tax Rulings or their effective application to the Arrangement;
- (c) until the Effective Date, refrain from disposing of, or suffering or permitting the creation of any Encumbrance on, any of its Nortel Networks Common Shares except as specifically contemplated hereby;
- (d) immediately prior to the Effective Date and in contemplation of the Plan of Arrangement, transfer to Stockco, with good and marketable title free and clear of all Encumbrances, all of the Nortel Networks Common Shares owned by it for consideration consisting of Stockco Preferred Shares with a fair market value equal to the fair market value at the time of transfer of the Nortel Networks Common Shares transferred and jointly elect with Stockco in prescribed form and within the time allowed by subsection 85(6) of the Tax Act to have the provisions of subsection 85(1) of the Tax Act (and corresponding provisions of any applicable provincial tax legislation) apply to the transfer of the Nortel Networks Common Shares at an agreed amount equal to the cost amount of such shares to 3263207 for purposes of the Tax Act at the time of disposition; and

- (e) perform the obligations required to be performed by it under the Plan of Arrangement and do all such other acts and things as may be necessary or desirable and are within its power and control in order to carry out and give effect to the Arrangement and any transactions necessary for the effectiveness of the Tax Rulings, including cooperating with BCE and Nortel Networks to obtain:
 - (i) the Interim Order and Final Order;
 - (ii) such other consents, rulings, orders, approvals and assurances as its counsel may advise are necessary or desirable for the implementation of the Arrangement, including those referred to in section 4.1; and
 - (iii) satisfaction of the other conditions precedent referred to in sections 4.1 and 4.2.

3.4 Covenants of Stockco.

Stockco hereby covenants and agrees with each of the other Parties that it will:

- (a) until the Effective Date, not carry on business, except as otherwise contemplated by this Agreement or the Tax Rulings;
- (b) until the Effective Date, not perform any act or enter into any transaction which interferes or is inconsistent with the completion of the Arrangement or the grant of the Tax Rulings or their effective application to the Arrangement;
- (c) until the Effective Date, refrain from disposing of, or suffering or permitting the creation of any Encumbrance on, any of its Nortel Networks Common Shares or any of the Nortel Networks Common Shares transferred to it by BCE pursuant to subsection 3.2(h) or by 3263207 pursuant to subsection 3.3(d);
- (d) at the time 3263207 transfers Nortel Networks Common Shares to it pursuant to subsection 3.3(d), issue to 3263207 in consideration therefor that number of Stockco Preferred Shares that has a fair market value equal to the fair market value of the transferred Nortel Networks Common Shares at the time of the transfer and jointly elect with 3263207, in prescribed form and within the time allowed by subsection 85(6) of the Tax Act, to have the provisions of subsection 85(1) of the Tax Act (and corresponding provisions of any applicable provincial tax legislation) apply to the transfer of the Nortel Networks Common Shares at an agreed amount equal to the cost amount of such shares to 3263207 for purposes of the Tax Act at the time of disposition;
- (e) add to the stated capital account maintained for the Stockco Preferred Shares an amount not exceeding the aggregate PUC of the Nortel Networks Common Shares transferred to it pursuant to subsection 3.3(d);
- (f) at the time BCE transfers to it the Nortel Networks Common Shares, and in consideration therefor:
 - (i) obligate itself to pay to BCE in the future any amounts received by Stockco in respect of the exercise of the Stockco/BCE Options (or any options exchanged therefor), as and when received by Stockco;
 - (ii) grant to BCE the right to exercise in the future any otherwise forfeited or expired Stockco/BCE Options (or any options exchanged therefor); and
 - (iii) issue to BCE Stockco Common Shares having a fair market value not exceeding the fair market value of the transferred Nortel Networks Common Shares at the time of transfer less the sum of the fair market values of the consideration referred to in clauses (i) and (ii) immediately above;
- (g) jointly elect with BCE in prescribed form and within the time allowed by subsection 85(6) of the Tax Act to have the provisions of subsection 85(1) of the Tax Act (and corresponding provisions of any applicable provincial tax legislation) apply to the transfer of the Nortel Networks Common Shares at an agreed amount in respect of the transfer equal to the cost amount of such shares to BCE for purposes of the Tax Act at the time of disposition;
- (h) add to the stated capital account maintained for the Stockco Common Shares an amount not to exceed the excess, if any, of the aggregate PUC of the Nortel Networks Common Shares transferred to Stockco by BCE pursuant to subsection 3.2(h) over the fair market value of the consideration referred to in clauses (i) and (ii) of subsection 3.2(h);
- (i) at the time BCE transfers cash or short-term investments to it pursuant to 3.2(j), issue to BCE in consideration therefor that number of Stockco Common Shares that has a fair market value equal to the fair market value of the transferred cash or short-term investments at the time of the transfer and add to the

stated capital account maintained for the Stockco Common Shares an amount equal to the fair market value of the transferred cash or short-term investments;

- (j) prior to the Effective Date but after the transfer described in subsection 3.2(h) (if so instructed by BCE), add to the stated capital account maintained by it for the Stockco Common Shares, through one or more special resolutions, an aggregate amount not to exceed its estimate of the amount by which (i) the “safe income on hand” (as that phrase is interpreted for purposes of section 55 of the Tax Act) (the “SIOH”) of Nortel Networks in respect of the Nortel Networks Common Shares owned by Stockco at the “safe income determination time” (as that term is defined in section 55 of the Tax Act) in respect of the “transaction or event or series of transactions or events” (as that phrase is interpreted for purposes of section 55 of the Tax Act) that includes the Arrangement, exceeds (ii) the SIOH of Nortel Networks in respect of the Nortel Network Common Shares owned by 3263207 immediately before such Nortel Networks Common Shares are transferred to Stockco as described in subsection 3.3(d);
- (k) prior to the Effective Date but after the transfer described in subsection 3.3(d) (if so instructed by BCE), add to the stated capital account maintained by it for the Stockco Preferred Shares, through one or more special resolutions, an aggregate amount not to exceed its estimate of the SIOH of Nortel Networks in respect of the Nortel Networks Common Shares owned by 3263207 immediately before such shares are transferred to Stockco as described in subsection 3.3(d);
- (l) amend its articles of incorporation to consolidate the Stockco Common Shares so that after such consolidation, the issued and outstanding Stockco Common Shares will equal 532,854,492;
- (m) prior to the Effective Date adopt one or more stock option plans to govern Stockco/BCE Options to be issued pursuant to the Arrangement; and
- (n) perform the obligations required to be performed by it under the Plan of Arrangement and do all such other acts and things as may be necessary or desirable and are within its power and control in order to carry out and give effect to the Arrangement and any transactions necessary for the effectiveness of the Tax Rulings, including cooperating with BCE and Nortel Networks to obtain:
 - (i) the Interim Order and the Final Order;
 - (ii) such other consents, orders, rulings, approvals and assurances as its counsel may advise are necessary or desirable for the implementation of the Arrangement, including those referred to in section 4.1; and
 - (iii) satisfaction of the other conditions precedent referred to in sections 4.1 and 4.2.

3.5 Covenants of Nortel Networks.

Nortel Networks hereby covenants and agrees with each of the other Parties that it will:

- (a) until the Effective Date, not perform any act or enter into any transaction which interferes or is inconsistent with the completion of the Arrangement or the grant of the Tax Rulings or their effective application to the Arrangement;
- (b) until the Effective Date, refrain from issuing a number of Nortel Networks Common Shares that would result in the number of New Nortel Common Shares exchanged for Nortel Networks Common Shares pursuant to subsection 2.2(i) of the Plan of Arrangement being equal to or greater than two-thirds of the number of New Nortel Common Shares outstanding immediately after such exchange;
- (c) as soon as practicable, prepare its portion of the Arrangement Circular and, subject to receipt of the Tax Rulings and the Interim Order, convene the Nortel Networks Meeting;
- (d) in a timely and expeditious manner, file the Arrangement Circular in all jurisdictions where the same is required to be filed by it and mail the same to the Nortel Networks Common Shareholders in accordance with the Interim Order and applicable law and solicit proxies to be voted at the Nortel Networks Meeting in favour of the Arrangement;
- (e) ensure that the information set forth in the Arrangement Circular relating to it, its subsidiaries (if applicable) and other interests, their respective businesses and properties and the effect of the Plan of Arrangement thereon will be true, correct and complete in all material respects and will not contain any untrue statement

of any material fact or omit to state any material fact required to be stated therein or necessary in order to make the statements therein not misleading in light of the circumstances in which they are made; and

- (f) perform the obligations required to be performed by it under the Plan of Arrangement and do all such other acts and things as may be necessary or desirable and are within its power and control in order to carry out and give effect to the Arrangement and any transactions necessary for the effectiveness of the Tax Rulings, including using all commercially reasonable efforts to obtain:
 - (i) the approval of the Nortel Networks Common Shareholders required for implementation of the Arrangement;
 - (ii) the Interim Order and Final Order;
 - (iii) the approval for the listing of the New Nortel Common Shares on the Toronto and New York stock exchanges;
 - (iv) such other consents, orders, rulings, approvals and assurances as its counsel may advise are necessary or desirable for the implementation of the Arrangement, including those referred to in section 4.1; and
 - (v) satisfaction of the other conditions precedent referred to in sections 4.1 and 4.2.

3.6 Covenants of New Nortel.

New Nortel hereby covenants and agrees with each of the other Parties that it will:

- (a) until the Effective Date not issue any shares or perform any act or enter into any transaction which interferes or is inconsistent with the completion of the Arrangement or the grant of the Tax Rulings or their effective application to the Arrangement;
- (b) cause New Nortel Subco to issue one common share for the sum of \$1.00 to New Nortel prior to the Effective Date;
- (c) ensure that the information set forth in the Arrangement Circular relating to it will be true, correct and complete in all material respects and will not contain any untrue statement of any material fact or omit to state any material fact required to be stated therein or necessary in order to make the statements therein not misleading in light of the circumstances in which they are made;
- (d) in the event that the amount of cash or short-term investments transferred by BCE to Stockco pursuant to subsection 3.2(j) exceeds the sum of actual Transaction Costs and 50% of the Regulatory Fees incurred by Nortel Networks and New Nortel, return any excess to BCE after the Arrangement has been completed in consideration of the covenant of BCE in subsection 3.2(j) to make a further payment in respect of any deficiency; and
- (e) perform the obligations required to be performed by it under the Plan of Arrangement and do all such other acts and things as may be necessary or desirable and are within its power and control in order to carry out and give effect to the Arrangement and any transactions necessary for the effectiveness of the Tax Rulings, including causing Stockco and New Nortel Subco to file elections under the Tax Act (and any applicable provincial tax legislation) as specified in this Agreement.

3.7 Interim Order.

As soon as practicable following receipt of the Tax Rulings, BCE and Nortel Networks shall apply to the Court pursuant to subsection 192(3) of the CBCA for the Interim Order providing for, among other things, the calling and holding of the Meetings.

3.8 Final Order.

If the Interim Order and all security holder approvals as required in respect of the Arrangement are obtained, BCE and Nortel Networks shall promptly thereafter take the necessary steps to submit the Arrangement to the Court and apply for the Final Order in such fashion as the Court may direct and as soon as practicable following receipt of the Final Order, and subject to compliance with any other conditions provided for in Article 4 hereof, BCE and Nortel Networks shall file, pursuant to section 192(6) of the CBCA, articles of arrangement to give effect to the Arrangement.

3.9 Tax-Related Covenants.

(a) BCE covenants and agrees with and in favour of New Nortel that: (i) neither BCE nor any successor thereto will engage in any transaction or permit any transaction to occur that would cause BCE not to be a Specified Corporation on the Effective Date; and (ii) BCE and any successor thereto will fulfill all representations or undertakings provided by BCE to Revenue Canada or Revenue Québec in connection with the Tax Rulings.

(b) New Nortel and Nortel Networks covenant and agree with and in favour of BCE that: (i) neither New Nortel nor any successor thereto will engage in any transaction or permit any transaction to occur that would cause BCE not to be a Specified Corporation on the Effective Date; and (ii) New Nortel and Nortel Networks and any successor to either of them, respectively, will fulfill all representations or undertakings provided by New Nortel or Nortel Networks, as the case may be, to Revenue Canada or Revenue Québec in connection with the Tax Rulings.

(c) The Parties hereby covenant and agree to cooperate in the preparation and filing in the form and within the time limits prescribed in the Tax Act, of all elections under the Tax Act as contemplated in the Tax Rulings and this Agreement (and any similar elections which may be required under applicable provincial legislation). Where an agreed amount is to be included in any such election, such amount shall be within the range contemplated by the Tax Act (or applicable provincial legislation) and shall be the amount contemplated by the Tax Rulings and this Agreement, such that the particular transfer shall take place on an income tax-deferred basis. Without limiting the foregoing, in respect of the transfer of Stockco Common Shares by BCE to New Nortel Subco pursuant to subsection 2.2(d) of the Plan of Arrangement, BCE and New Nortel Subco will jointly elect to have the provisions of subsection 85(1) of the Tax Act apply at an agreed amount in respect of the transfer equal to the cost amount of such shares to BCE for purposes of the Tax Act at the time of disposition.

3.10 Costs and Expenses.

Transaction Costs and Regulatory Fees incurred by BCE, 3263207 and Stockco shall be borne by BCE. If the Arrangement is completed, Transaction Costs and Regulatory Fees incurred by Nortel Networks and New Nortel shall be borne as provided in subsections 3.2(j) and 3.6(d) (and, for clarity, the portion of Regulatory Fees incurred by New Nortel and Nortel Networks not covered thereby shall be borne by New Nortel or Nortel Networks, as the case may be). If the Arrangement is not completed for a reason other than a breach by Nortel Networks of any of its obligations hereunder, BCE shall reimburse to Nortel Networks the amount of Transaction Costs incurred by Nortel Networks and New Nortel, subject to a maximum reimbursement obligation of US\$25,000,000 or the Canadian equivalent thereof, and 50% of Regulatory Fees incurred by Nortel Networks and New Nortel, and shall pay such reimbursement within 30 days of presentation of an invoice or invoices (with appropriate supporting documentation) by wire transfer of immediately available funds to a bank account designated by Nortel Networks.

3.11 Covenant of BCE Relating to 3263207 and Stockco.

BCE hereby covenants and agrees with Nortel Networks to take such action as may be necessary to cause 3263207 and Stockco at all times while they are respectively controlled by BCE to fully and faithfully perform their respective obligations under this Agreement and to comply with the terms and conditions hereof.

3.12 Stock Options.

Prior to the Effective Date and in contemplation of the Plan of Arrangement, each of BCE, Stockco and New Nortel, respectively, shall adopt stock option plans to govern options to be distributed in conformity with subsections 2.2(b) and 2.2(l) of the Plan of Arrangement. BCE and New Nortel, both acting reasonably, shall enter into one or more agreements for the administration of the plans relating to the New Nortel/BCE Options and the reimbursement of New Nortel's reasonable incremental expenses incurred in connection with the administration of such plans.

Apart from exercise price, the terms and provisions of the respective option plans shall follow as closely as practicable the terms and provisions of the BCE 1985 SOP and the BCE 1999 SOP.

The exercise prices of the BCE Replacement Options, the Stockco/BCE Options and the New Nortel/BCE Options will be determined in accordance with the following formulas (which, in the case of the New Nortel/BCE Options are stated prior to giving effect to the New Nortel Share Split):

$$\begin{array}{l} \text{BCE Replacement Option Exercise Price} \\ \text{(per BCE Common Share)} \end{array} = \text{PE} \times \left[1 - \frac{\text{OV}}{\text{PE} + (0.78 \times \text{PNN})} \right]$$

$$\begin{array}{l} \text{Stockco/BCE Option Exercise Price} \\ \text{(per 0.78 Stockco Common Share)} \end{array} = 0.78 \times \left[\text{PS} - \frac{\text{PNN} \times \text{OV}}{\text{PE} + (0.78 \times \text{PNN})} \right]$$

$$\begin{array}{l} \text{New Nortel/BCE Option Exercise Price} \\ \text{(per 0.78 New Nortel Common Share)} \end{array} = 0.78 \times \text{PNN} \times \left[1 - \frac{\text{OV}}{\text{PE} + (0.78 \times \text{PNN})} \right]$$

Where:

“OV” is the difference between the fair market value of a BCE Common Share immediately preceding the Effective Date and the exercise price of the BCE Option outstanding immediately prior to the Effective Date;

“PE” is the fair market value of a BCE Common Share immediately following the Effective Date;

“PNN” is the fair market value of a New Nortel Common Share immediately following the Effective Date;

“PS” is the fair market value of a Stockco Common Share at the relevant time contemplated by the Tax Act;

“0.78” is an approximation of the number that will be calculated immediately prior to the Effective Date as a fraction of which the numerator is 539,854,492 minus the number of Retained Shares and the denominator is the sum of (i) the number of BCE Common Shares outstanding immediately prior to the Effective Time minus the number of BCE Common Shares held immediately prior to the Effective Time by BCE Dissenting Shareholders plus (ii) the number of BCE Common Shares issuable on exercise of BCE Existing Options.

The fair market value of a BCE Common Share or a New Nortel Common Share will be a weighted average trading price on The Toronto Stock Exchange for a common share of the relevant corporation on the trading day immediately preceding or immediately following the completion of the Arrangement, as the case may be, or determined in such other manner as may be determined by BCE acting reasonably. The pricing formulas are designed to maintain the aggregate “in the money amount” of the BCE Replacement Options and New Nortel/BCE Options held by each BCE Optionholder at an amount identical to (and in no event greater than) the “in the money amount” of such person’s BCE Existing Options immediately prior to the Effective Date and the exercise prices under the BCE Replacement Options shall be rounded up as necessary to achieve this result. The number and exercise price of New Nortel/BCE Options will be appropriately adjusted to reflect the New Nortel Share Split.

3.13 Anti-Dilution Adjustments.

In the event Nortel Networks changes the number of Nortel Networks Common Shares issued and outstanding as a result of a stock split, stock dividend, consolidation, subdivision or similar transaction, all references in this Agreement to precise numbers of Nortel Networks Common Shares shall be deemed to be proportionately adjusted to reflect such stock split, stock dividend, consolidation, subdivision or similar transaction.

3.14 Survival of Covenants.

The covenants in this Agreement shall survive the Effective Date.

ARTICLE 4

CONDITIONS

4.1 Mutual Conditions Precedent.

The respective obligations of the Parties to complete the transactions contemplated by this Agreement and to file articles of arrangement to give effect to the Arrangement shall be subject to satisfaction of the following conditions:

- (a) the Arrangement, either without amendment or with amendments approved by Nortel Networks, New Nortel and BCE, shall have been approved at the BCE Meeting in accordance with the Interim Order;
- (b) the Arrangement, either without amendment or with amendments approved by Nortel Networks, New Nortel and BCE, shall have been approved at the Nortel Networks Meeting in accordance with the Interim Order;
- (c) the Final Order shall have been obtained in form and substance satisfactory to each of Nortel Networks, New Nortel and BCE acting reasonably;
- (d) all material consents, orders, rulings, approvals and assurances, including regulatory and judicial approvals and orders, required for the completion of the transactions provided for in this Agreement, the Tax Rulings and the Plan of Arrangement shall have been obtained or received from the persons, authorities or bodies having jurisdiction in the circumstances, including (i) an advance ruling certificate under section 102 or the expiry of waiting periods under Part IX of the *Competition Act* in respect of the transactions contemplated hereby and (ii) orders, rulings, no action letters and registrations pursuant to the *Securities Act* (Ontario) and the comparable securities legislation of the other provinces of Canada and of the United States of America and the states thereof to permit the BCE Common Shares and the New Nortel Common Shares to be issued without a prospectus and without the participation of a registered dealer pursuant to the Arrangement or pursuant to the terms of options or other rights to purchase or exchange granted or assumed pursuant to the Arrangement and to be freely tradeable in each such jurisdiction promptly following the Effective Date;
- (e) no action shall have been instituted and be continuing on the Effective Date for an injunction to restrain, a declaratory judgment in respect of, or damages on account of or relating to, the Arrangement and there shall not be in force any order or decree restraining or enjoining the consummation of the transactions contemplated by this Agreement or the Tax Rulings and no cease trading or similar order with respect to any securities of any of the Parties shall have been issued and remain outstanding;
- (f) none of the consents, orders, rulings, approvals or assurances required for the implementation of the Arrangement shall contain terms or conditions or require undertakings or security deemed unsatisfactory or unacceptable by any of the Parties, acting reasonably;
- (g) no law, regulation or policy shall have been proposed, enacted, promulgated or applied which interferes or is inconsistent with the completion of the Arrangement or the grant of the Tax Rulings or their effective application to the Arrangement;
- (h) the Tax Rulings shall have been received and shall remain in full force and effect and all of the transactions referred to in the Tax Rulings as occurring on or prior to the Effective Date shall have occurred and all conditions or terms of the Tax Rulings shall have been satisfied;
- (i) in the event that BCE Dissenting Shareholders hold more than 0.5% of the outstanding BCE Common Shares, BCE shall have determined to proceed with the Arrangement;
- (j) in the event that Nortel Networks Dissenting Shareholders hold more than 0.5% of the outstanding Nortel Networks Common Shares, Nortel Networks shall have determined to proceed with the Arrangement;
- (k) The Toronto Stock Exchange and the New York Stock Exchange shall have approved the continued listing of the BCE Common Shares and conditionally approved the listing of the New Nortel Common Shares to be issued pursuant to the Arrangement, subject in the latter case to compliance with the normal listing requirements of such exchanges;

- (l) each of BCE, 3263207 and Stockco shall have legal and beneficial ownership of its Nortel Networks Common Shares with good and marketable title thereto, free and clear of all Encumbrances except as affected by the transactions contemplated by this Agreement; and
- (m) this Agreement shall not have been terminated under Article 6.

4.2 Conditions to Obligations of Each Party.

The obligation of each Party to complete the transactions contemplated by this Agreement is further subject to the condition, which may be waived by such Party without prejudice to its right to rely on any other condition in its favour, that the covenants of the other Parties to be performed on or before the Effective Date pursuant to the terms of this Agreement shall have been duly performed by them and that, except insofar as this Agreement does not prohibit transactions taking place prior to the Effective Date that would alter facts represented, the representations and warranties of the other Parties shall be true and correct in all material respects as at the Effective Date, with the same effect as if such representations and warranties had been made at, and as of, such time and each such Party shall receive a certificate, dated the Effective Date, of a senior officer of each other Party confirming the same.

4.3 Merger of Conditions.

The conditions set out in section 4.1, other than subsection (l) thereof, shall be conclusively deemed to have been satisfied, waived or released on the filing by BCE and Nortel Networks of articles of arrangement under the CBCA to give effect to the Plan of Arrangement.

ARTICLE 5

INDEMNITIES

5.1 Indemnity by BCE.

BCE will indemnify and hold each of Nortel Networks and New Nortel harmless against:

- (a) any Loss suffered or incurred by Nortel Networks or New Nortel (other than a Loss resulting from the application of the Tax Act or any other similar or equivalent tax legislation to the transactions described in section 2.2 of the Plan of Arrangement) resulting from a breach of a representation, warranty or covenant herein or pursuant hereto by BCE, 3263207 or Stockco; and
- (b) any Loss suffered or incurred by Nortel Networks or New Nortel resulting from the application of the Tax Act or any other similar or equivalent tax legislation to the transactions described in section 2.2 of the Plan of Arrangement, except such a Loss as is caused by (i) any event, action or inaction within the control of Nortel Networks or New Nortel (which, for greater certainty, may also constitute a breach of representation, warranty or covenant) or (ii) an acquisition of control of New Nortel by a person or group of persons which acquisition of control is not within the control of New Nortel and where there has not occurred a breach of representation, warranty or covenant by BCE, 3263207 or Stockco directly related to the Loss suffered. For purposes of this section, the phrase “acquisition of control” shall be interpreted as it is interpreted for purposes of paragraph 55(3.1)(b) of the Tax Act.

5.2 Indemnity by New Nortel.

New Nortel will indemnify and hold BCE harmless against:

- (a) any Loss suffered or incurred by BCE (other than a Loss resulting from the application of the Tax Act or any other similar or equivalent tax legislation to the transactions described in section 2.2 of the Plan of Arrangement) resulting from a breach of a representation, warranty or covenant herein or pursuant hereto by Nortel Networks or New Nortel; and
- (b) any Loss suffered or incurred by BCE resulting from the application of the Tax Act or any other similar or equivalent tax legislation to the transactions described in section 2.2 of the Plan of Arrangement which Loss

is caused by any event, action or inaction within the control of Nortel Networks or New Nortel (which, for greater certainty, may also constitute a breach of a representation, warranty or covenant).

5.3 Indemnity by Nortel Networks.

Nortel Networks will indemnify and hold BCE harmless against any Loss suffered or incurred by BCE resulting from breaches by Nortel Networks up to and including the Effective Date of Nortel Networks' representations and warranties in sections 2.1 and 2.5 and covenants in sections 3.1 and 3.5.

5.4 Notice of Third Party Claims.

(a) If an Indemnified Party receives notice of the commencement or assertion of any Third Party Claim, the Indemnified Party shall notify the Indemnifier within a reasonable time thereafter, but in any event, no later than 30 days after receipt of such notice of such Third Party Claim. Such notice to the Indemnifier shall describe the Third Party Claim in reasonable detail and shall indicate, to the extent reasonably practicable, the estimated amount of the Loss that has been or may be sustained by the Indemnified Party. The Indemnifier shall then have a period of 30 days (the "Notice Period") within which to satisfy such Third Party Claim or, failing that, to give notice to the Indemnified Party that it intends to dispute such Third Party Claim and participate in or assume the defence thereof, which notice shall be accompanied by reasonable particulars in writing of the basis of such dispute.

(b) If an Indemnified Party has reason to believe that a person may be investigating the possibility of asserting a Third Party Claim, it shall notify the Indemnifier as soon as reasonably practicable and provide reasonable details of the circumstances thereof. The Indemnified Party and the Indemnifier shall seek to cooperate with a view to satisfying the person who may assert the Third Party Claim that there is no reasonable basis therefor.

5.5 Defence of Third Party Claims.

If the Indemnifier elects to assume the defence of any Third Party Claim, the Indemnifier shall at all times act reasonably and in good faith in pursuing such defence, keep the Indemnified Party fully informed as to the progress and status of such defence of the Third Party Claim and provide copies to the Indemnified Party of all material documents, records and other materials relating to such defence or the Third Party Claim. The Indemnifier shall provide the Indemnified Party with drafts of documents which the Indemnifier proposes to send or file in advance of the sending of or filing of the same and the Indemnified Party shall have the right to provide comments thereon to the Indemnifier; provided, however, that it shall not result in any undue delays. The Indemnifier agrees to pay all of its own expenses of participating in or assuming such defence. The Indemnified Party shall cooperate in good faith in the defence of each Third Party Claim, even if the defence has been assumed by the Indemnifier, and may participate in such defence assisted by counsel of its choice and at its own expense, except in those circumstances in which there are material issues between the Indemnifier and the Indemnified Party or there are defences available to the Indemnified Party which are not available to the Indemnifier, in either of which cases the Indemnified Party may participate in such defence assisted by counsel of its choice at the expense of the Indemnifier to the extent such expenses are reasonable. Neither the Indemnifier nor the Indemnified Party shall enter into any compromise or settlement of any Third Party Claim without obtaining the prior written consent of the other of them, such consent not to be unreasonably withheld or delayed. If the Indemnifier wishes to settle a Third Party Claim in an amount acceptable to the third party claimant, but the Indemnified Party does not wish so to settle, the Indemnifier shall be required to indemnify the Indemnified Party only up to the lesser of the amount for which the Indemnifier would have settled the Third Party Claim and the amount which the Indemnified Party was or will be required to pay such third party in connection with such Third Party Claim. If the Indemnified Party has not received notice within the Notice Period that the Indemnifier has elected to assume the defence of a Third Party Claim or if the Indemnifier, having elected to assume the defence of any Third Party Claim, fails to take reasonable steps necessary to defend diligently such Third Party Claim within 30 days after receiving notice from the Indemnified Party that the Indemnified Party bona fide believes on reasonable grounds that the Indemnifier has failed to take such steps (with such grounds to be specified in reasonable detail), the Indemnified Party may, at its option, elect to settle or compromise the Third Party Claim or assume such defence, assisted by counsel of its choosing, and the Indemnifier shall be liable for all reasonable costs and expenses paid or incurred in connection therewith and any Loss suffered or incurred by the Indemnified Party with respect to such Third Party Claim.

5.6 Assistance for Third Party Claim.

The Indemnifier and the Indemnified Party shall use all reasonable efforts to make available:

- (a) those employees, representatives or advisors, whose assistance, testimony or presence is necessary to assist in evaluating and defending any Third Party Claim; and
- (b) all documents, records and other materials reasonably required for use in defending any Third Party Claim;

and shall otherwise cooperate in such defence.

5.7 Direct Claims.

Any Direct Claim shall be asserted by providing notice to the Indemnifier within a reasonable time after the Indemnified Party becomes aware of such Direct Claim, but in any event not later than 60 days after the Indemnified Party becomes aware of such Direct Claim. The Indemnifier shall then have a period of 30 days within which to satisfy such Direct Claim or, failing that, to give notice to the Indemnified Party that it intends to dispute such Direct Claim, which notice shall be accompanied by reasonable particulars in writing of the basis of such dispute.

5.8 Failure to Give Timely Notice.

The failure to give timely notice as provided in this Article 5 shall not affect the rights or obligations of any Party except and only to the extent that, as a result of such failure, the Party which was entitled to receive such notice suffered damage.

5.9 Reduction in Subrogation.

If at any time subsequent to the making of an Indemnity Payment the amount of the indemnified Loss is reduced pursuant to any claim, recovery, settlement or payment by or against any other Person (a "Recovery"), such that, taking the Recovery into account, the amount of the Indemnity Payment in respect of the Loss exceeds the amount of the Loss, the Indemnified Party shall promptly repay to the Indemnifier the amount of the excess (the "Excess") (less any costs, expenses (including Taxes) or premiums incurred in connection therewith) together with interest (1) from the date of payment of the Indemnity Payment in respect of which the repayment is being made to but excluding the earlier of the date of repayment of the Excess and the date that is 60 days after the Excess arises, but only to the extent that the Recovery giving rise to the Excess included interest, at the rate applied to the amount of the Recovery and (2) from and including the date that is 60 days after the Excess arises to but excluding the date of repayment of the Excess, at the Prime Rate. Notwithstanding the foregoing provisions of this section, no payment shall be made hereunder to the extent the Indemnified Party is entitled to an Indemnity Payment hereunder that remains unpaid. Upon making a full Indemnity Payment, the Indemnifier shall, to the extent of such Indemnity Payment, be subrogated to all rights of the Indemnified Party against any third party in respect of the Loss to which the Indemnity Payment relates. Until the Indemnified Party recovers full payment of its Loss, any and all claims of the Indemnifier against such third party on account of such Indemnity Payment shall be postponed and subordinated in right of payment to the Indemnified Party's rights against such third party.

5.10 Tax Effect.

If any Indemnity Payment received by an Indemnified Party would constitute income for tax purposes to such Indemnified Party, the Indemnifier shall pay a Tax Gross Up to the Indemnified Party at the same time and on the same terms, as to interest and otherwise, as the Indemnity Payment. The amount of any Loss for which indemnification is provided shall be adjusted to take into account any tax benefit realized by the Indemnified Party or any of its affiliates by reason of the Loss for which indemnification is so provided or the circumstances giving rise to such Loss. For purposes of this section, any tax benefit shall be taken into account at such time as it is received by the Indemnified Party or its affiliate. Notwithstanding the foregoing provisions of this section, if an Indemnity Payment is included in the Indemnified Party's income pursuant to paragraph 12(1)(x) of the Tax Act (or an equivalent provision of any relevant provincial legislation), the Indemnified Party covenants and agrees to make an election pursuant to subsection 12(2.2) of the Tax Act (and the equivalent provision of any applicable provincial legislation) with respect to the Indemnity Payment to the maximum extent possible such that the amount of the Indemnity Payment included in the Indemnified Party's income for tax purposes is minimized or eliminated.

5.11 Payment and Interest.

All Losses (other than Taxes) shall bear interest at a rate per annum, calculated and payable monthly, equal to the Prime Rate per annum from and including the date the Indemnified Party disbursed funds or suffered or incurred a Loss to but excluding the day of payment by the Indemnifier to the Indemnified Party, with interest on overdue interest at the same rate. All Losses that are Taxes shall bear interest at a rate per annum, calculated and payable monthly, equal to the Prime Rate from and including the date the Indemnified Party paid such Taxes to but excluding the day of payment by the Indemnifier to the Indemnified Party of the Indemnity Payment in respect of such Taxes, with interest on overdue interest at the same rate.

ARTICLE 6

AMENDMENT AND TERMINATION

6.1 Amendment.

This Agreement may, at any time and from time to time before and after the holding of the Meetings but not later than the Effective Date, be amended by written agreement of the Parties without, subject to applicable law, further notice to or authorization on the part of their respective shareholders. Without limiting the generality of the foregoing, any such amendment may:

- (a) change the time for performance of any of the obligations or acts of the Parties;
- (b) waive any inaccuracies or modify any representation contained herein or in any document to be delivered pursuant hereto;
- (c) waive compliance with or modify any of the covenants herein contained or waive or modify performance of any of the obligations of the Parties; or
- (d) make such alterations in this Agreement as the Parties may consider necessary or desirable in connection with the Tax Rulings or the Interim Order.

6.2 Termination.

This Agreement may, at any time before or after the holding of the Meetings but prior to the issue under the CBCA of a certificate of arrangement giving effect to the Arrangement, be terminated by agreement of BCE and Nortel Networks at any time without approval of their respective shareholders. This Agreement shall terminate without any further action by the Parties if the Effective Date shall not have occurred on or before June 1, 2000.

ARTICLE 7

GENERAL

7.1 Notices.

All notices that may or are required to be given pursuant to any provision of this Agreement shall be given in writing and shall be delivered personally or by facsimile addressed to the recipient as follows:

To any one or more of BCE, 3263207 and Stockco:

BCE Inc.
bureau 3700
1000, rue de la Gauchetière ouest
Montréal, Québec
H3B 4Y7

Attention: · Martine Turcotte
Chief Legal Officer

Fax No.: (514) 870-4877

with a copy to:

Davies, Ward & Beck
Suite 4400
1 First Canadian Place
Toronto, Ontario
M5X 1B1

Attention: Jean-Paul Bisnaire

Fax No.: (416) 863-0871

To Nortel Networks or New Nortel:

Nortel Networks Corporation
8200 Dixie Road
Suite 100
Brampton, Ontario
L6T 5P6

Attention: Nicholas J. DeRoma
Chief Legal Officer

Fax No.: (905) 863-8544

with a copy to:

Ogilvy Renault
Suite 2100, Royal Trust Tower
Toronto Dominion Centre
Toronto, Ontario
M5K 1H1

Attention: Michael J. Lang

Fax No.: (416) 216-3930

or such other address of which a Party may, from time to time, advise the other Parties hereto by notice in writing given in accordance with the foregoing. Date of receipt of any such notice shall be deemed to be the date of delivery thereof or, if given by facsimile, on the day of transmittal thereof if given during the normal business hours of the recipient and on the next Business Day, if not given during such hours.

7.2 Assignment.

No Party may assign its rights or obligations under this Agreement or the Arrangement.

7.3 Binding Effect.

This Agreement shall be binding upon and shall enure to the benefit of the Parties hereto and their respective successors and specific references to “successors” elsewhere in this Agreement shall not be construed to be in derogation of the foregoing.

7.4 Waiver.

Any waiver or release of any of the provisions of this Agreement, to be effective, must be in writing executed by the Party granting the same.

7.5 Governing Law.

This Agreement shall be governed by and construed in accordance with the laws of the Province of Ontario and the laws of Canada applicable therein and shall be treated in all respects as an Ontario contract.

7.6 Counterparts.

This Agreement and any amendment, supplement or restatement thereof may be executed in one or more counterparts, each of which shall be deemed to constitute an original.

IN WITNESS WHEREOF the Parties hereto have executed this Agreement.

BCE INC.

by _____ “Jean C. Monty”
Name: Jean C. Monty
Title: President and Chief Executive Officer

3056074 CANADA INC.

by _____ “Barry Pickford”
Name: Barry Pickford
Title: Director

3263207 CANADA INC.

by _____ “Martine Turcotte”
Name: Martine Turcotte
Title: Director

NEW NORTEL INC.

by _____ “John A. Roth”
Name: John A. Roth
Title: President and Chief Executive Officer

NORTEL NETWORKS CORPORATION

by _____ “John A. Roth”
Name: John A. Roth
Title: President and Chief Executive Officer

APPENDIX I

TO THE ARRANGEMENT AGREEMENT MADE AS OF JANUARY 26, 2000, AS AMENDED AND RESTATED MARCH 13, 2000, BETWEEN BCE INC., 3056074 CANADA INC., 3263207 CANADA INC., NEW NORTEL INC. AND NORTEL NETWORKS CORPORATION

PLAN OF ARRANGEMENT UNDER SECTION 192 OF THE CANADA *BUSINESS CORPORATIONS ACT*

ARTICLE 1

INTERPRETATION

1.1 Definitions.

In this Plan of Arrangement, unless something in the subject matter or context is inconsistent therewith:

- (a) **“Acquisition Security”** means:
 - (i) in the event that the merger contemplated by the Clarify Agreement has not been completed by the Effective Date, a security of Nortel Networks to be delivered by Nortel Networks, or an affiliate of Nortel Networks, under the merger provisions of the Clarify Agreement; and
 - (ii) in the event that the merger contemplated by the Promatory Agreement has not been completed by the Effective Date, a security of Nortel Networks to be delivered by Nortel Networks, or an affiliate of Nortel Networks, under the merger provisions of the Promatory Agreement;
- (b) **“Aptis Agreement”** means the agreement and plan of merger dated as of March 18, 1998, as amended as of April 21, 1998, among Aptis Communications, Inc. (“Aptis”), Nortel Networks and AJ Communications Inc., a Delaware corporation and a wholly-owned subsidiary of Nortel Networks, and the shareholders of Aptis;
- (c) **“Arrangement”** means the proposed arrangement under the provisions of section 192 of the CBCA on the terms and conditions set forth in this Plan of Arrangement and any amendment thereto made in accordance with section 6.1 of the Arrangement Agreement;
- (d) **“Arrangement Agreement”** means the amended and restated arrangement agreement made between BCE, 3263207, Stockco, New Nortel and Nortel Networks to which this Plan of Arrangement is attached as Appendix I and all amendments thereto;
- (e) **“BCE”** means BCE Inc., a corporation governed by the CBCA, both before and after the BCE Amalgamation;
- (f) **“BCE Amalgamation”** means the amalgamation of BCE and 3263207 provided for in subsection 2.2(a);
- (g) **“BCE Class B Shares”** means the Class B non-voting shares of BCE after and as a result of the BCE Amalgamation, having the attributes contained in Schedule A;
- (h) **“BCE Common Shareholder”** means a holder of BCE Common Shares;
- (i) **“BCE Common Share”** means a common share of BCE, both before and after the BCE Amalgamation;
- (j) **“BCE Dissent Rights”** means the right of a BCE Common Shareholder to dissent in respect of the Arrangement pursuant to the procedures set forth in section 190 of the CBCA and section 3.1;
- (k) **“BCE Dissenting Shareholder”** means a BCE Common Shareholder who exercises such holder’s BCE Dissent Rights;

- (l) **“BCE Existing Option”** means an option to acquire BCE Common Shares granted by BCE pursuant to the BCE 1985 SOP or the BCE 1999 SOP and outstanding immediately prior to the Effective Time;
- (m) **“BCE Preferred Shares”** means first preferred shares of BCE, both before and after the BCE Amalgamation;
- (n) **“BCE Replacement Stock Option Plan”** means the stock option plan adopted by BCE to govern the administration of the BCE Replacement Options (as defined in subsection 2.2(b));
- (o) **“BCE 1985 SOP”** means the BCE Inc. Long-Term Incentive (Stock Option) Program (1985), as amended;
- (p) **“BCE 1999 SOP”** means the BCE Inc. Long-Term Incentive Stock Option Program (1999), as amended;
- (q) **“Butterfly Proportion”** means the fraction A/B where A is the fair market value of the assets to be transferred by BCE to New Nortel Subco pursuant to subsection 2.2(d) immediately before such transfer and B is the net fair market value of all property owned by BCE immediately before such transfer;
- (r) **“CBCA”** means the *Canada Business Corporations Act*;
- (s) **“Clarify Agreement”** means the agreement and plan of merger dated as of October 18, 1999, among Clarify Inc. (“Clarify”), Nortel Networks and Northern Crown Subsidiary, Inc., a Delaware corporation and a wholly-owned subsidiary of Nortel Networks, pursuant to which, among other things: (a) Northern Crown Subsidiary, Inc. will merge with and into Clarify, with Clarify being the surviving corporation in the merger and becoming a wholly-owned subsidiary of Nortel Networks as a result of the merger; and (b) each outstanding share of common stock of Clarify will be converted into the right to receive 1.3 common shares of Nortel Networks, subject to adjustments in certain circumstances;
- (t) **“Depository”** means Montreal Trust Company of Canada;
- (u) **“Earnout Security”** means:
 - (i) a security of Nortel Networks to be delivered by Nortel Networks, or an affiliate of Nortel Networks, under the earnout provisions of the Aptis Agreement provided such security of Nortel Networks has not previously been issued in escrow;
 - (ii) a security of Nortel Networks to be delivered by Nortel Networks, or an affiliate of Nortel Networks, under the earnout provisions of the Promatory Agreement provided such security of Nortel Networks has not previously been issued in escrow; and
 - (iii) a security of Nortel Networks to be delivered by Nortel Networks, or an affiliate of Nortel Networks, under the earnout provisions of the Qtera Agreement provided such security of Nortel Networks has not previously been issued in escrow;
- (v) **“Effective Date”** means the effective date of the Arrangement, being the date shown on the certificate of arrangement to be issued by the Director under the CBCA giving effect to the Arrangement;
- (w) **“Effective Time”** means the earliest possible moment on the Effective Date;
- (x) **“Encumbrances”** means mortgages, charges, pledges, liens, hypothecs, security interests, encumbrances, adverse claims and rights of third parties to acquire or restrict the use of property;
- (y) **“New Nortel”** means New Nortel Inc., a corporation governed by the CBCA, both before and after the New Nortel Amalgamation;
- (z) **“New Nortel Amalgamation”** means the amalgamation of New Nortel and Stockco provided for in subsection 2.2(k);
- (aa) **“New Nortel Common Share”** means a common share of New Nortel;
- (bb) **“New Nortel/BCE Option”** means an option granted by New Nortel as set out in subsection 2.2(l), having the attributes set forth in the New Nortel/BCE 1985 Stock Option Plan or the New Nortel/BCE 1999 Stock Option Plan;

- (cc) **“New Nortel/BCE 1985 Stock Option Plan”** means the stock option plan adopted by New Nortel to govern the administration of the New Nortel/BCE Options issued in exchange for Stockco/BCE Options governed by the Stockco/BCE 1985 Stock Option Plan;
- (dd) **“New Nortel/BCE 1999 Stock Option Plan”** means the stock option plan adopted by New Nortel to govern the administration of the New Nortel/BCE Options issued in exchange for Stockco/BCE Options governed by the Stockco/BCE 1999 Stock Option Plan;
- (ee) **“New Nortel Share Split”** means the subdivision of New Nortel Common Shares on a two-for-one basis to occur, pursuant to subsection 2.2(t);
- (ff) **“New Nortel Subco”** means 3721621 Canada Inc., a corporation governed by the CBCA;
- (gg) **“New Nortel Subco Common Share”** means a common share of New Nortel Subco;
- (hh) **“Nortel Networks”** means Nortel Networks Corporation, a corporation governed by the CBCA;
- (ii) **“Nortel Networks Common Shareholder”** means a holder of Nortel Networks Common Shares;
- (jj) **“Nortel Networks Common Share”** means a common share of Nortel Networks;
- (kk) **“Nortel Networks Dissent Rights”** means the right of a Nortel Networks Common Shareholder to dissent in respect of the Arrangement pursuant to the procedures set forth in section 190 of the CBCA and section 3.1;
- (ll) **“Nortel Networks Dissenting Shareholder”** means a Nortel Networks Common Shareholder who exercises such holder’s Nortel Networks Dissent Rights;
- (mm) **“Nortel Networks Option”** means an option to acquire Nortel Networks Common Shares pursuant to a Nortel Networks Plan;
- (nn) **“Nortel Networks Plans”** means:
 - (i) the Nortel Networks Corporation 1986 Stock Option Plan As Amended and Restated;
 - (ii) the Nortel Networks Corporation Shareholder Dividend Reinvestment and Stock Purchase Plan, as amended;
 - (iii) the Amended and Restated Nortel Networks NA, Inc. 1994 Stock Option Plan;
 - (iv) the Periphonics Corporation 1995 Stock Option Plan, as amended;
 - (v) the Periphonics Corporation 1995 Non-Employee Director Stock Option Plan, as amended;
 - (vi) in the event that the merger contemplated by the Clarify Agreement has been completed by the Effective Date,
 - (A) the Clarify Inc. 1999 Non-Executive Stock Option/Stock Issuance Plan,
 - (B) the Clarify Inc. Amended and Restated 1995 Stock Option/Stock Issuance Plan,
 - (C) the Clarify Inc. Non-Employee Directors Option Plan,
 - (D) the Clarify Inc. 1991 Stock Option/Stock Issuance Plan,
 - (E) the Objix Systems Development, Inc. Stock Plan, as amended, and
 - (F) the separate stock option agreements listed on Schedule 3.07 of the Clarify Agreement;
 - (vii) in the event that the merger contemplated by the Promatory Agreement has been completed by the Effective Date, the Promatory Communications, Inc. 1997 Stock Plan, as amended and the Promatory Communications, Inc. 1999 Stock Plan, as amended;
 - (viii) the Qtera Corporation Amended and Restated Stock Incentive Plan and the outstanding warrants to purchase shares of common stock listed in Sections 2.2 and 4.1 of the Disclosure Schedule to the Qtera Agreement;

- (ix) the Nortel Networks 2000 Stock Option Plan, provided that it shall have been approved by the Nortel Networks Common Shareholders at the Nortel Networks Meeting; and
- (x) any other stock plans of Nortel Networks in place prior to the Effective Date which by their terms or determination by the board of directors of Nortel Networks are to be assumed by New Nortel;
- (oo) **“Nortel Networks Series 4 Exchange Right”** means the right attached to the Cumulative Redeemable Class A Preferred Shares, Series 4 of Nortel Networks to exchange such shares for Nortel Networks Common Shares;
- (pp) **“Plan of Arrangement”** means this plan of arrangement as the same may be amended from time to time in accordance with the terms of the Arrangement Agreement;
- (qq) **“Promatory Agreement”** means the agreement and plan of merger, dated as of January 5, 2000, among Promatory Communications, Inc. (“Promatory”), and certain principal shareholders of Promatory, Nortel Networks and NNC Panther Acquisition Corporation, a Delaware corporation and a wholly-owned subsidiary of Nortel Networks, pursuant to which, among other things: (a) NNC Panther Acquisition Corporation will merge with and into Promatory, with Promatory being the surviving corporation in the merger and becoming a wholly-owned subsidiary of Nortel Networks as a result of the merger; and (b) each outstanding share of common stock of Promatory will be converted into the right to receive Nortel Networks Common Shares in accordance with the formula provided for in such agreement;
- (rr) **“PUC”** means paid-up capital as defined in subsection 89(1) of the Tax Act;
- (ss) **“Qtera Agreement”** means the agreement and plan of merger, dated as of December 14, 1999, as amended, among Qtera Corporation (“Qtera”), Nortel Networks and NNC Acquisition Corporation (“NNC”), a Delaware corporation and a wholly-owned subsidiary of Nortel Networks, pursuant to which, among other things: (a) NNC merged with and into Qtera, with Qtera being the surviving corporation in the merger and becoming a wholly-owned subsidiary of Nortel Networks as a result of the merger; and (b) each outstanding share of common stock and preferred stock of Qtera was converted into the right to receive Nortel Networks Common Shares in accordance with the formula provided for in such agreement;
- (tt) **“Retained Nortel Networks Plans”** means:
 - (i) the Nortel Networks Corporation Directors’ Deferred Share Compensation Plan;
 - (ii) the Nortel Networks Corporation Restricted Stock Unit Plan;
 - (iii) the Nortel Networks Global Employee Stock Purchase Plan;
 - (iv) the Nortel Networks Corporation Investment Plan for Employees — Canada;
 - (v) the Nortel Networks Long-Term Investment Plan;
 - (vi) the February 29, 1996, February 27, 1997, January 29, 1998 and May 28, 1999 resolutions of the board of directors of Nortel Networks regarding grants of synthetic stock options;
 - (vii) the Nortel Networks Stock Purchase Plan;
 - (viii) the Bay Networks, Inc. 1998 Employee Stock Purchase Plan;
 - (ix) the Bay Networks 1998 Employee Stock Purchase Plan for Employees of Non-U.S. Affiliates of Bay Networks, Inc.; and
 - (x) any other stock plans of Nortel Networks in place prior to the Effective Date (excluding any stock plan described in clause (x) of the definition of Nortel Networks Plans);
- (uu) **“Stockco”** means 3056074 Canada Inc., a wholly-owned subsidiary of BCE governed by the CBCA;
- (vv) **“Stockco/BCE 1985 Stock Option Plan”** means a stock option plan adopted by Stockco to govern the administration of those Stockco/BCE Options issued in exchange for BCE Existing Options governed by the BCE 1985 SOP;

- (cc) **“New Nortel/BCE 1985 Stock Option Plan”** means the stock option plan adopted by New Nortel to govern the administration of the New Nortel/BCE Options issued in exchange for Stockco/BCE Options governed by the Stockco/BCE 1985 Stock Option Plan;
- (dd) **“New Nortel/BCE 1999 Stock Option Plan”** means the stock option plan adopted by New Nortel to govern the administration of the New Nortel/BCE Options issued in exchange for Stockco/BCE Options governed by the Stockco/BCE 1999 Stock Option Plan;
- (ee) **“New Nortel Share Split”** means the subdivision of New Nortel Common Shares on a two-for-one basis to occur, pursuant to subsection 2.2(t);
- (ff) **“New Nortel Subco”** means 3721621 Canada Inc., a corporation governed by the CBCA;
- (gg) **“New Nortel Subco Common Share”** means a common share of New Nortel Subco;
- (hh) **“Nortel Networks”** means Nortel Networks Corporation, a corporation governed by the CBCA;
- (ii) **“Nortel Networks Common Shareholder”** means a holder of Nortel Networks Common Shares;
- (jj) **“Nortel Networks Common Share”** means a common share of Nortel Networks;
- (kk) **“Nortel Networks Dissent Rights”** means the right of a Nortel Networks Common Shareholder to dissent in respect of the Arrangement pursuant to the procedures set forth in section 190 of the CBCA and section 3.1;
- (ll) **“Nortel Networks Dissenting Shareholder”** means a Nortel Networks Common Shareholder who exercises such holder’s Nortel Networks Dissent Rights;
- (mm) **“Nortel Networks Option”** means an option to acquire Nortel Networks Common Shares pursuant to a Nortel Networks Plan;
- (nn) **“Nortel Networks Plans”** means:
 - (i) the Nortel Networks Corporation 1986 Stock Option Plan As Amended and Restated;
 - (ii) the Nortel Networks Corporation Shareholder Dividend Reinvestment and Stock Purchase Plan, as amended;
 - (iii) the Amended and Restated Nortel Networks NA, Inc. 1994 Stock Option Plan;
 - (iv) the Periphonics Corporation 1995 Stock Option Plan, as amended;
 - (v) the Periphonics Corporation 1995 Non-Employee Director Stock Option Plan, as amended;
 - (vi) in the event that the merger contemplated by the Clarify Agreement has been completed by the Effective Date,
 - (A) the Clarify Inc. 1999 Non-Executive Stock Option/Stock Issuance Plan,
 - (B) the Clarify Inc. Amended and Restated 1995 Stock Option/Stock Issuance Plan,
 - (C) the Clarify Inc. Non-Employee Directors Option Plan,
 - (D) the Clarify Inc. 1991 Stock Option/Stock Issuance Plan,
 - (E) the Objix Systems Development, Inc. Stock Plan, as amended, and
 - (F) the separate stock option agreements listed on Schedule 3.07 of the Clarify Agreement;
 - (vii) in the event that the merger contemplated by the Promatory Agreement has been completed by the Effective Date, the Promatory Communications, Inc. 1997 Stock Plan, as amended and the Promatory Communications, Inc. 1999 Stock Plan, as amended;
 - (viii) the Qtera Corporation Amended and Restated Stock Incentive Plan and the outstanding warrants to purchase shares of common stock listed in Sections 2.2 and 4.1 of the Disclosure Schedule to the Qtera Agreement;

- (ix) the Nortel Networks 2000 Stock Option Plan, provided that it shall have been approved by the Nortel Networks Common Shareholders at the Nortel Networks Meeting; and
- (x) any other stock plans of Nortel Networks in place prior to the Effective Date which by their terms or determination by the board of directors of Nortel Networks are to be assumed by New Nortel;
- (oo) **“Nortel Networks Series 4 Exchange Right”** means the right attached to the Cumulative Redeemable Class A Preferred Shares, Series 4 of Nortel Networks to exchange such shares for Nortel Networks Common Shares;
- (pp) **“Plan of Arrangement”** means this plan of arrangement as the same may be amended from time to time in accordance with the terms of the Arrangement Agreement;
- (qq) **“Promatory Agreement”** means the agreement and plan of merger, dated as of January 5, 2000, among Promatory Communications, Inc. (“Promatory”), and certain principal shareholders of Promatory, Nortel Networks and NNC Panther Acquisition Corporation, a Delaware corporation and a wholly-owned subsidiary of Nortel Networks, pursuant to which, among other things: (a) NNC Panther Acquisition Corporation will merge with and into Promatory, with Promatory being the surviving corporation in the merger and becoming a wholly-owned subsidiary of Nortel Networks as a result of the merger; and (b) each outstanding share of common stock of Promatory will be converted into the right to receive Nortel Networks Common Shares in accordance with the formula provided for in such agreement;
- (rr) **“PUC”** means paid-up capital as defined in subsection 89(1) of the Tax Act;
- (ss) **“Qtera Agreement”** means the agreement and plan of merger, dated as of December 14, 1999, as amended, among Qtera Corporation (“Qtera”), Nortel Networks and NNC Acquisition Corporation (“NNC”), a Delaware corporation and a wholly-owned subsidiary of Nortel Networks, pursuant to which, among other things: (a) NNC merged with and into Qtera, with Qtera being the surviving corporation in the merger and becoming a wholly-owned subsidiary of Nortel Networks as a result of the merger; and (b) each outstanding share of common stock and preferred stock of Qtera was converted into the right to receive Nortel Networks Common Shares in accordance with the formula provided for in such agreement;
- (tt) **“Retained Nortel Networks Plans”** means:
 - (i) the Nortel Networks Corporation Directors’ Deferred Share Compensation Plan;
 - (ii) the Nortel Networks Corporation Restricted Stock Unit Plan;
 - (iii) the Nortel Networks Global Employee Stock Purchase Plan;
 - (iv) the Nortel Networks Corporation Investment Plan for Employees — Canada;
 - (v) the Nortel Networks Long-Term Investment Plan;
 - (vi) the February 29, 1996, February 27, 1997, January 29, 1998 and May 28, 1999 resolutions of the board of directors of Nortel Networks regarding grants of synthetic stock options;
 - (vii) the Nortel Networks Stock Purchase Plan;
 - (viii) the Bay Networks, Inc. 1998 Employee Stock Purchase Plan;
 - (ix) the Bay Networks 1998 Employee Stock Purchase Plan for Employees of Non-U.S. Affiliates of Bay Networks, Inc.; and
 - (x) any other stock plans of Nortel Networks in place prior to the Effective Date (excluding any stock plan described in clause (x) of the definition of Nortel Networks Plans);
- (uu) **“Stockco”** means 3056074 Canada Inc., a wholly-owned subsidiary of BCE governed by the CBCA;
- (vv) **“Stockco/BCE 1985 Stock Option Plan”** means a stock option plan adopted by Stockco to govern the administration of those Stockco/BCE Options issued in exchange for BCE Existing Options governed by the BCE 1985 SOP;

- (ww) **“Stockco/BCE 1999 Stock Option Plan”** means a stock option plan adopted by Stockco to govern the administration of those Stockco/BCE Options issued in exchange for BCE Existing Options governed by the BCE 1999 SOP;
- (xx) **“Stockco/BCE Option”** means an option granted by Stockco to acquire a portion of a Stockco Common Share equal to the Transfer Ratio, having the attributes set out in the Stockco/BCE 1985 Stock Option Plan or the Stockco/BCE 1999 Stock Option Plan;
- (yy) **“Stockco Common Share”** means a common share of Stockco;
- (zz) **“Stockco Preferred Share”** means a preferred share of Stockco;
- (aaa) **“Tax Act”** means the Income Tax Act (Canada);
- (bbb) **“Trading Day”** means a day, other than a Saturday or Sunday, when The Toronto Stock Exchange is open for trading;
- (ccc) **“Transfer Ratio”** means the fraction of which the numerator is 539,854,492 minus the number of Retained Shares (determined in accordance with subsection 3.1(e) of the Arrangement Agreement) and of which the denominator is the sum of (i) the number of BCE Common Shares outstanding immediately prior to the Effective Time minus the number of BCE Common Shares held immediately prior to the Effective Time by BCE Dissenting Shareholders plus (ii) the number of BCE Common Shares issuable pursuant to BCE Existing Options [actual number to be substituted prior to Effective Date];
- (ddd) **“Transferred Multiple”** means the fraction of which the numerator is the Transferred Proportion and the denominator is one minus the Transferred Proportion;
- (eee) **“Transferred Proportion”** means the fraction: $A \times (C \div B)$ expressed as a decimal, where: A is the Butterfly Proportion; B is the fair market value of all of the BCE Common Shares and BCE Class B Shares issued and outstanding immediately before the transfer described in subsection 2.2(d); and C is the fair market value of all shares of all classes of BCE issued and outstanding immediately before such transfer; and
- (fff) **“3263207”** means 3263207 Canada Inc., a wholly-owned subsidiary of BCE governed by the CBCA.

1.2 Schedules.

Schedule A, Share Conditions for BCE Class B Shares, is attached to and forms part of this Plan of Arrangement.

1.3 Construction.

In this Plan of Arrangement, unless otherwise expressly stated or the context otherwise requires:

- (a) references to “herein”, “hereby”, “hereunder”, “hereof” and similar expressions are references to this Plan of Arrangement and not to any particular section, subsection, clause or Schedule;
- (b) references to an “Article”, “section”, “subsection”, “clause” or “Schedule” are references to an Article, section, subsection, clause or Schedule of or to this Plan of Arrangement;
- (c) words importing the singular shall include the plural and *vice versa*, words importing gender shall include the masculine, feminine and neuter genders, and references to a “person” or “persons” shall include individuals, corporations, partnerships, associations, bodies politic and other entities, all as may be applicable in the context;
- (d) the use of headings is for convenience of reference only and shall not affect the construction or interpretation hereof;
- (e) the word “including”, when following any general term or statement, is not to be construed as limiting the general term or statement to the specific items or matters set forth or to similar items or matters, but rather as referring to all other items or matters that could reasonably fall within the broadest possible scope of the general term or statement; and

- (f) a reference to a statute or code includes every regulation made pursuant thereto, all amendments to the statute or code or to any such regulation in force from time to time, and any statute, code or regulation which supplements or supersedes such statute, code or any such regulation.

1.4 Currency.

All references to currency herein are to lawful money of Canada unless otherwise specified.

ARTICLE 2

THE ARRANGEMENT

2.1 Arrangement Agreement.

This Plan of Arrangement is made pursuant to the provisions of the Arrangement Agreement and constitutes an arrangement as referred to in section 192 of the CBCA.

2.2 The Arrangement.

At the Effective Time, subject, however, to subsection 2.2(t), the following shall occur and be deemed to occur in the following order without any further act or formality, with each transaction or event being deemed to occur immediately after the occurrence of the transaction or event immediately preceding it:

- (a) BCE and 3263207 (hereinafter referred to in this subsection 2.2(a) as “predecessor corporations”) will be amalgamated as if the amalgamation were carried out pursuant to subsection 184(1) of the CBCA (“vertical short-form amalgamation”) subject to the following:
 - (i) each BCE Common Shareholder before the amalgamation (other than a BCE Dissenting Shareholder) will receive upon the amalgamation
 - (A) the same number of BCE Common Shares as such holder held immediately prior to the amalgamation, and
 - (B) the number of BCE Class B Shares that is equal to the product of the Transferred Multiple and the number of the BCE Common Shares held by such holder immediately before the amalgamation;
 - (ii) the stated capital of the BCE Common Shares and BCE Class B Shares will be determined upon the amalgamation as follows:
 - (A) the amount of the stated capital account of the BCE Common Shares will be equal to the result when (1 — Transferred Proportion) is multiplied by the PUC of the BCE Common Shares (excluding BCE Common Shares held by BCE Dissenting Shareholders) immediately prior to the amalgamation;
 - (B) the amount of the stated capital account of the BCE Class B Shares will be equal to the Transferred Proportion of the PUC of the BCE Common Shares (excluding BCE Common Shares held by BCE Dissenting Shareholders) immediately prior to the amalgamation;
 - (iii) by virtue of the amalgamation:
 - (A) all of the property (except any amounts receivable from any predecessor corporation or shares of the capital stock of any predecessor corporation) of the predecessor corporations held immediately before the amalgamation will become the property of BCE;
 - (B) all of the liabilities (except any amounts payable to any predecessor corporation) of the predecessor corporations immediately before the amalgamation will become liabilities of BCE;

- (C) all of the shares of 3263207 held by BCE immediately prior to the amalgamation will be cancelled without any repayment of capital; and
- (iv) for greater certainty, a BCE Preferred Share of a particular series will become a BCE Preferred Share of an identically denominated series, with terms and conditions identical to those, and a stated capital equal to the PUC of the respective series immediately before the amalgamation.
- (b) Contemporaneously with the BCE Amalgamation, each outstanding BCE Existing Option will be cancelled (each such stock option referred to hereinafter as the “exchanged BCE Existing Option”) and each holder of an exchanged BCE Existing Option will receive for each exchanged BCE Existing Option one new option granted by BCE (the “BCE Replacement Option”) to acquire one new BCE Common Share and one Stockco/BCE Option to acquire the Transfer Ratio of a Stockco Common Share. The BCE Replacement Options will be governed by and subject to the terms of the BCE Replacement Stock Option Plan. The Stockco/BCE Options will be governed by and subject to the terms of the Stockco/BCE 1985 Stock Option Plan or the Stockco/BCE 1999 Stock Option Plan, depending upon whether the BCE Existing Option to which it relates was issued pursuant to the BCE 1985 SOP or the BCE 1999 SOP.
- (c) Each holder of BCE Class B Shares will transfer, with good and marketable title free and clear of all Encumbrances, all such shares to New Nortel. As consideration for the BCE Class B Shares transferred to it, New Nortel will issue to such holders, *pro rata* to the number of BCE Class B Shares transferred to it by the respective holders, that number of New Nortel Common Shares equal to the product of the number of BCE Common Shares outstanding and the Transfer Ratio and the stated capital account maintained in respect of New Nortel Common Shares shall be increased by an amount equal to the PUC of the transferred BCE Class B Shares.
- (d) BCE will transfer to New Nortel Subco, with good and marketable title free and clear of all Encumbrances, that number of Stockco Common Shares such that the fair market value of the Stockco Common Shares and the Stockco Preferred Shares retained by BCE would be equal to the fair market value immediately after the New Nortel Amalgamation of the number of Retained Shares determined in accordance with subsection 3.1(e) of the Arrangement Agreement [actual number to be supplied prior to Effective Date], in consideration for the issuance by New Nortel Subco of New Nortel Subco Common Shares with a fair market value equal to the fair market value at the time of the transfer of the transferred Stockco Common Shares and the stated capital account in respect of the New Nortel Subco Common Shares shall be increased by an amount equal to the maximum amount that could be added to the PUC of such shares, having regard to subsection 85(2.1) of the Tax Act.
- (e) New Nortel Subco will purchase for cancellation the New Nortel Subco Common Shares held by BCE in consideration for the issuance by New Nortel Subco to BCE of a non-interest-bearing demand note (the “New Nortel Subco Redemption Note”) having a principal amount and fair market value equal to the fair market value of the New Nortel Subco Common Shares purchased for cancellation.
- (f) BCE will purchase for cancellation the BCE Class B Shares held by New Nortel in consideration for the issuance by BCE to New Nortel of a non-interest-bearing demand note (the “BCE Redemption Note”) having a principal amount and fair market value equal to the aggregate fair market value of the BCE Class B Shares purchased for cancellation.
- (g) New Nortel Subco will commence winding up in accordance with subsection 88(1) of the Tax Act and section 210 of the CBCA and, in connection with and as a consequence thereof, will distribute all of its assets, rights and properties to New Nortel, including all of New Nortel Subco’s interest in the Stockco Common Shares, and all the liabilities and obligations of New Nortel Subco, including the liability of New Nortel Subco under the New Nortel Subco Redemption Note, will be assumed by New Nortel. New Nortel shall have a power of attorney coupled with an interest to execute and file in the name of New Nortel Subco any elections with federal and provincial tax authorities as may be necessary or appropriate.
- (h) The New Nortel Subco Redemption Note will be set off against the BCE Redemption Note in full accord and satisfaction of the respective obligations under each note and the notes will be cancelled.

- (i) Each Nortel Networks Common Share (other than those held by New Nortel, Stockco and Nortel Networks Dissenting Shareholders) will be exchanged for one New Nortel Common Share and New Nortel shall add an amount to the stated capital account in respect of the New Nortel Common Shares up to but not exceeding the PUC of the exchanged Nortel Networks Common Shares.
- (j) The Nortel Networks Series 4 Exchange Rights shall be amended so that if such a right ever takes force and effect the holder will be entitled to acquire, from Nortel Networks, New Nortel Common Shares on the same basis as prior to the Effective Date would apply to the acquisition of Nortel Networks Common Shares pursuant to the Nortel Networks Series 4 Exchange Rights, unless Nortel Networks elects to redeem for cash all of the Nortel Networks Series 4 Shares.
- (k) New Nortel and Stockco (hereinafter referred to in this subsection 2.2(k) as “predecessor corporations”) shall be amalgamated with the effect that:
 - (i) all of the property (except any amounts receivable from any predecessor corporation or shares of the capital stock of any predecessor corporation) of the predecessor corporations held immediately before the amalgamation will become the property of New Nortel;
 - (ii) all of the liabilities of the predecessor corporations immediately before the amalgamation (except amounts payable to any predecessor corporation) will become liabilities of New Nortel;
 - (iii) all of the shares of Stockco held by New Nortel immediately before the amalgamation will be cancelled;
 - (iv) BCE will receive the number of New Nortel Common Shares equal to the number of Retained Shares determined in accordance with subsection 3.1(e) of the Arrangement Agreement [actual number to be supplied prior to Effective Date] in exchange for its Stockco Common Shares and Stockco Preferred Shares;
 - (v) the holders of New Nortel Common Shares will receive the same number of New Nortel Common Shares as they held immediately before the amalgamation;
 - (vi) the amount added to the stated capital of the New Nortel Common Shares will be equal to the aggregate of the PUC immediately prior to the amalgamation of (A) the New Nortel Common Shares, (B) the Stockco Preferred Shares, and (C) the Stockco Common Shares other than Stockco Common Shares held by New Nortel;
- (l) Contemporaneously with the New Nortel Amalgamation, the Stockco/BCE Options will be cancelled and each holder of a Stockco/BCE Option will receive in exchange, and New Nortel will grant, New Nortel/BCE Options to acquire the same number of New Nortel Common Shares as the number of Stockco Common Shares for which the Stockco/BCE Options were exercisable prior to their cancellation, with an exercise price calculated so that for each holder of Stockco/BCE Options the excess, if any, of (A) the fair market value immediately after the exchange of the New Nortel Common Shares for which the New Nortel/BCE Options may be exercised over the exercise price thereof is equal to (B) the excess, if any, of the fair market value immediately prior to the exchange of the Stockco Common Shares for which the Stockco/BCE Options could have been exercised over the exercise price thereof. The New Nortel/BCE Options will be governed by and subject to the terms of the New Nortel/BCE 1985 Stock Option Plan or the New Nortel/BCE 1999 Stock Option Plan, depending upon whether the Stockco/BCE Option it replaces was governed by and subject to the provisions of the Stockco/BCE 1985 Stock Option Plan or the Stockco/BCE 1999 Stock Option Plan, respectively.
- (m) Contemporaneously with the New Nortel Amalgamation, each Nortel Networks Option that is outstanding on the Effective Date shall be assumed by New Nortel and deemed to constitute an option to acquire, on the same terms and conditions as were applicable to such Nortel Networks Option prior to the Effective Date (including, without limitation, in respect of adjustments for any stock dividend, subdivision, reclassification, recapitalization, split, combination, exchange of shares or similar transaction) the same number of New Nortel Common Shares as the number of Nortel Networks Common Shares that were subject to the assumed Nortel Networks Option immediately prior to such assumption.

- (n) Contemporaneously with the New Nortel Amalgamation, (i) the obligation of Stockco to transfer to BCE the exercise prices, as and when received, in respect of the exercise of the Stockco/BCE Options will become an obligation of New Nortel to transfer to BCE the exercise prices, as and when received, in respect of the exercise of New Nortel/BCE Options, and (ii) the right of BCE to exercise any otherwise forfeited or expired Stockco/BCE Options will become a right of BCE to exercise any otherwise forfeited or expired New Nortel/BCE Options.
- (o) Contemporaneously with the New Nortel Amalgamation, the Nortel Networks Plans shall be assumed by New Nortel.
- (p) Contemporaneously with the New Nortel Amalgamation, any entitlement granted by Nortel Networks, or an affiliate of Nortel Networks, that is outstanding on the Effective Date and that allows a person to receive or purchase Nortel Networks Common Shares, or to receive a benefit based on the value or market trading price of a Nortel Networks Common Share, at any time on or after the Effective Date (including, without limitation, any such entitlement under an Acquisition Security, an Earnout Security or the Retained Nortel Networks Plans) shall become an entitlement to receive or purchase New Nortel Common Shares, or to receive a benefit based on the value or market trading price of a New Nortel Common Share, on a share-for-share basis.
- (q) Contemporaneously with the New Nortel Amalgamation, any undertaking by Nortel Networks, or an affiliate of Nortel Networks, that is outstanding on the Effective Date and that requires Nortel Networks, or an affiliate of Nortel Networks, to deliver or sell Nortel Networks Common Shares, or to deliver a benefit based on the value or market trading price of a Nortel Networks Common Share, at any time on or after the Effective Date (including, without limitation, any such undertaking under an Acquisition Security, an Earnout Security or the Retained Nortel Networks Plans) shall become an undertaking to deliver or sell New Nortel Common Shares, or to deliver a benefit based on the value or market trading price of a New Nortel Common Share, on a share-for-share basis.
- (r) The name of New Nortel shall be changed to *Nortel Networks Corporation* (in English) and *Corporation Nortel Networks* (in French).
- (s) The name of Nortel Networks will be changed to *Nortel Networks Limited* (in English) and *Corporation Nortel Networks Limitée* (in French).
- (t) The New Nortel Common Shares will be subdivided on a two-for-one basis effective at the close of business on the fourth Trading Day after the Effective Date.

2.3 Articles of Dissolution.

Articles of dissolution for New Nortel Subco will be filed with the Director under subsection 211(14) of the CBCA at such time within one year following the Effective Date, as the chief financial officer of New Nortel may determine.

ARTICLE 3

RIGHTS OF DISSENT

3.1 Rights of Dissent.

(a) BCE Common Shareholders and Nortel Networks Common Shareholders may exercise dissent rights pursuant to and in the manner set forth in section 190 of the CBCA and this section 3.1 in connection with the Arrangement.

(b) BCE Dissenting Shareholders shall not be permitted to withdraw their notices of dissent after the Effective Time and the only right of a BCE Dissenting Shareholder, as such, after the Effective Time shall be to be paid fair value for his BCE Common Shares. In no case shall BCE or New Nortel or any other person be required to recognize such holders as holders of BCE Common Shares or New Nortel Common Shares after the Effective Time and the names of such holders shall be deleted from the applicable register of shareholders on the Effective Time.

- (c) Nortel Networks Dissenting Shareholders who:
- (i) are ultimately entitled to be paid fair value for their Nortel Networks Common Shares shall be deemed to have transferred such shares to Nortel Networks for cancellation immediately prior to the Effective Time, or
 - (ii) are ultimately not entitled to be paid fair value for their Nortel Networks Common Shares shall be deemed to have participated in the Arrangement on the same basis as any non-dissenting holder of Nortel Networks Common Shares as at and from the Effective Date and shall receive the same consideration as such a holder, on the basis set out in this Plan of Arrangement.

ARTICLE 4

CERTIFICATES

4.1 Entitlement to Share Certificates.

(a) Upon the Arrangement becoming effective, certificates representing the BCE Common Shares and the BCE Preferred Shares prior to the BCE Amalgamation shall be deemed for all purposes to be certificates representing BCE Common Shares and the BCE Preferred Shares after the BCE Amalgamation and accordingly no new certificates representing such shares shall be issued.

(b) From the Effective Date until the close of business on the fourth Trading Day following the Effective Date, certificates representing BCE Common Shares will represent in addition the New Nortel Common Shares issued in the Arrangement to BCE Common Shareholders.

(c) As soon as practicable certificates representing New Nortel Common Shares (on a post-New Nortel Share Split basis) will be mailed to those persons whose names appear on the registers of holders of BCE Common Shares at the close of business on the fourth Trading Day following the Effective Date.

(d) Upon the Arrangement becoming effective, certificates that prior to the Effective Date represented Nortel Networks Common Shares (other than those held immediately prior to the Effective Date by BCE, 3056074 or Stockco) shall represent the same number of New Nortel Common Shares and accordingly no new certificates representing such shares shall be issued.

(e) As soon as practicable, certificates representing the increased number of New Nortel Common Shares outstanding as a result of the New Nortel Share Split will be mailed to those persons whose names appear on the registers of holders of New Nortel Common Shares at the close of business on the fourth Trading Day following the Effective Date.

(f) No certificates representing BCE Class B Shares or New Nortel Subco Common Shares will be issued.

4.2 Fractional Shares.

No certificates representing fractional interests of less than one whole share in New Nortel Common Shares will be issued. Instead, after the New Nortel Share Split, such fractional interests to which holders of BCE Common Shares would otherwise be entitled shall be summed and the total shall be rounded up to the nearest whole number and such whole number of New Nortel Common Shares shall be issued and delivered to the Depositary who shall sell them and divide the proceeds (other than the cash representing the rounded up amount, which shall be paid to New Nortel) among the persons otherwise entitled to fractions by forwarding cheques representing their proportional interests in the total proceeds to such persons.

Schedule A to Plan of Arrangement

PROVISIONS ATTACHING TO THE CLASS B SHARES OF BCE INC.

The rights, privileges, restrictions and conditions attaching to the Class B Shares are as follows:

1.1 The holders thereof are not entitled to notice of or to attend or vote at any meeting of shareholders of the Corporation except as may be required by the *Canada Business Corporations Act*.

1.2 Subject to the rights, privileges, restrictions and conditions attaching to shares of any class of the Corporation ranking prior to the Class B Shares, the holders thereof are entitled to receive such dividends payable in money, property, or by the issue of fully paid shares of the Corporation, as may be declared by the Board of Directors and to receive on an equal basis share for share with the holders of the Common Shares the remaining property of the Corporation upon the liquidation, dissolution or winding up thereof.

1.3 The Directors of the Corporation may determine at any time and from time to time, with respect to all or a portion of any dividend on the Class B Shares of the Corporation that such dividend shall be payable in money or, in the case of electing holders whose addresses on the books of the Corporation are in Canada, and in jurisdictions specified by the Directors outside Canada, by the issue of fully paid Class B Shares of the Corporation having a value, as determined by the Directors, that is substantially equivalent, as of a date or period of days determined by the Directors, to the cash amount of such dividend, provided that the Directors may (but need not) value the Class B Shares to be issued in payment of the dividend at a discount from or premium to the relevant market value thereof of up to 5%, in either case.

1.4 With respect to fractional shares that may result from any such stock dividend the Corporation shall issue to an agent for shareholders appointed by the Corporation a number of whole shares representing in the aggregate the fractional shares of all electing shareholders unless the Directors of the Corporation otherwise determine, for instance by the payment of cash in lieu of fraction of share interests that may result from any such stock dividend. In any event, no certificates representing fraction of share interests will be issued by the Corporation.

1.5 A holder of Class B Shares shall have the right, at his option, to convert at any time and from time to time, subject to the terms and provisions hereof, all or part of his Class B Shares into Common Shares, on the basis of one Common Share for each Class B Share. The conversion of Class B Shares may be effected by surrender of the certificate or certificates representing the same at any time during usual business hours at the option of the holder at the Registered Office of the Corporation or at any office of any transfer agent of the Corporation at which the Class B Shares are transferable accompanied: (1) by payment or evidence of payment of the tax (if any) payable as provided in this section 1.5; and (2) by written instrument of surrender in form satisfactory to the Corporation duly executed by the registered holder, or his attorney duly authorized in writing, in which instrument such holder shall elect to convert all or part only of the Class B Shares represented by such certificate or certificates in which event the Corporation shall issue and deliver or cause to be delivered to such holder, at the expense of the Corporation, a new certificate representing the Class B Shares represented by such certificate or certificates which have not been converted. The date of such surrender of certificates representing Class B Shares to be converted is referred to hereinafter as the "Conversion Date". A holder of Class B Shares to be converted shall not be entitled to fractional shares upon conversion but shall be entitled to receive a new certificate representing the number of remaining Class B Shares which cannot be converted.

As promptly as practicable on or after the Conversion Date the Corporation shall issue and deliver, or cause to be delivered to or upon the written order of the holder of the Class B Shares so surrendered, a certificate or certificates issued in the name of, or in such name or names as may be directed by, such holder representing the number of fully paid and non-assessable Common Shares and the number of remaining Class B Shares, if any, to which such holder is entitled. Such conversion shall be deemed to have been made at the close of business on the Conversion Date, so that the rights of the holder of such Class B Shares as the holder thereof shall cease at such time and the person or persons entitled to receive Common Shares upon such conversion shall be treated for all purposes as having become the holder or holders of record of such Class B Shares at such time.

The registered holder of any Class B Share on the record date for any dividend declared payable on such share shall be entitled to such dividend notwithstanding that such share is converted after such record date and before the payment date of such dividend.

The issuance of certificates for Common Shares upon the conversion of Class B Shares shall be made without charge to the converting holders of Class B Shares for any fee or tax in respect of the issuance of such certificates or the Common Shares represented thereby; provided, however, that the Corporation shall not be required to pay any tax which may be imposed upon the person or persons to whom such Common Shares are issued in respect of the issuance of such Common Shares or the certificates therefor or which may be payable in respect of any transfer involved in the issuance and delivery of any such certificate in a name or names other than that of the holder of the Class B Shares converted, and the Corporation shall not be required to issue or deliver such certificate unless the person or persons requesting the issuance thereof shall have paid to the Corporation the amount of such tax or shall have established to the satisfaction of the Corporation that such tax has been paid.

1.6 In respect of the declaration and payment of dividends and upon the liquidation, dissolution or winding up of the Corporation the Class B Shares shall rank *pari passu* with the Common Shares of the Corporation.

APPENDIX II

TO THE ARRANGEMENT AGREEMENT MADE AS OF JANUARY 26, 2000 AS AMENDED AND RESTATED MARCH 13, 2000 AMONG BCE INC., 3056074 CANADA INC., 3263207 CANADA INC., NEW NORTEL INC. AND NORTEL NETWORKS CORPORATION

PREFERRED SHARES OF 3056074 CANADA INC.

The preferred shares of the Corporation (the "Preferred Shares") shall have attached thereto the following rights, privileges, restrictions and conditions:

1. Dividends

1.1 The holders of the Preferred Shares, in priority to the holders of the common shares and any other shares ranking junior to the Preferred Shares, shall be entitled to receive and the Corporation shall pay thereon, as and when declared by the board of directors of the Corporation out of the moneys of the Corporation properly applicable to the payment of dividends, fixed preferential non-cumulative cash dividends at the rate of 5% per share per annum of the redemption amount thereof as determined in accordance with the provisions of clause 7.1 below (hereinafter referred to as the "redemption amount"). The board of directors shall be entitled from time to time to declare part of the fixed preferential non-cumulative cash dividend for any fiscal year of the Corporation notwithstanding that such dividend for such year shall not be declared in full. If within 30 days after the expiration of any fiscal year of the Corporation the board of directors in its discretion shall not declare the said dividend or any part thereof on the Preferred Shares for such year then the rights of the holders of the Preferred Shares to such dividend or to any undeclared part thereof for such year shall be forever extinguished. The holders of the Preferred Shares shall not be entitled to any dividends other than or in excess of the preferential non-cumulative cash dividends hereinbefore provided for.

1.2 Cheques of the Corporation payable at par at any branch of the Corporation's bankers shall be issued in respect of the dividends on the Preferred Shares (less any tax required to be withheld by the Corporation) and payment thereof shall satisfy such dividends. Dividends which are represented by a cheque which has not been presented to the Corporation's bankers for payment or that otherwise remain unclaimed for a period of six years from the date on which they were declared to be payable shall be forfeited to the Corporation.

1.3 Except with the consent in writing of the holders of all the Preferred Shares outstanding, no dividends shall at any time be declared or paid on or set apart for payment on the common shares or on any shares of any other class of the Corporation ranking junior to the Preferred Shares and the Corporation shall not purchase or otherwise acquire for value any common shares or any shares of any other class of the Corporation ranking junior to the Preferred Shares so long as any Preferred Shares are outstanding, unless and until the fixed preferential non-cumulative cash dividends have been declared and paid or set apart for payment for the current fiscal year of the Corporation on all the Preferred Shares outstanding.

1.4 No dividend shall be at any time declared and paid or set apart for payment on the common shares or any other shares ranking junior to the Preferred Shares if the payment of any such dividend on the common shares or any other shares of the Corporation ranking junior to the Preferred Shares would result in the Corporation having insufficient net assets to redeem all the issued and outstanding Preferred Shares at their redemption amount or would render the Corporation incapable of redeeming all of the issued and outstanding Preferred Shares pursuant to clauses 4.1 or 5.1.

2. Dissolution

2.1 In the event of the dissolution, liquidation or winding-up of the Corporation, whether voluntary or involuntary, or other distribution of assets of the Corporation among its shareholders for the purpose of winding-up its affairs, the holders of the Preferred Shares shall be entitled to receive from the assets and property of the Corporation for each Preferred Share held by them respectively a sum equivalent to the redemption amount thereof together with all declared and unpaid preferential non-cumulative cash dividends thereon before any amount shall be paid or any property or assets of the Corporation distributed to the holders of any common shares or shares of any other class ranking junior to the Preferred Shares. After payment to the holders of the Preferred Shares of the amount so payable to them as above provided, they shall not be entitled to share in any further distribution of the property or assets of the Corporation.

3. Purchase by the Corporation

3.1 Subject to the provisions of subsection 34(2) of the *Canada Business Corporations Act* (the “Act”), as now enacted or as the same may from time to time be amended, re-enacted or replaced (and in the case of such amendment, re-enactment or replacement, any references herein shall be read as referring to such amended, re-enacted or replaced provisions), the Corporation may at any time or from time to time purchase (if obtainable) all or any part of the outstanding Preferred Shares at the lowest price at which, in the opinion of the directors, such shares are obtainable, but not exceeding the redemption price calculated in the manner set out in clause 4.1.

4. Redemption by the Corporation

4.1 Subject to the provisions of subsection 36(2) of the Act, as now enacted or as the same may from time to time be amended, re-enacted or replaced (and in the case of such amendment, re-enactment or replacement, any references herein shall be read as referring to such amended, re-enacted or substituted provisions), the Corporation may, upon giving notice as hereinafter provided, redeem at any time the whole or from time to time any part of the then outstanding Preferred Shares on payment for each share to be redeemed of a sum equivalent to the redemption amount thereof together with all declared and unpaid preferential non-cumulative cash dividends thereon (the whole being referred to in Articles 4 and 5 hereof as the “redemption price”).

4.2 In the case of redemption of Preferred Shares under the provisions of clause 4.1 hereof, the Corporation shall at least one (1) day before the date specified for redemption mail to each person who at the date of mailing is a registered holder of Preferred Shares to be redeemed a notice in writing of the intention of the Corporation to redeem such Preferred Shares. Such notice shall be mailed by letter, postage prepaid, addressed to each such shareholder at his address as it appears on the records of the Corporation or in the event of the address of any such shareholder not so appearing then to the last known address of such shareholder; provided, however, that accidental failure to give any such notice to, or the waiver of any such notice by, one or more of such shareholders shall not affect the validity of such redemption. Such notice shall set out the redemption price and the date on which redemption is to take place and, if part only of the shares held by the person to whom it is addressed is to be redeemed, the number thereof so to be redeemed. On or after the date so specified for redemption, the Corporation shall pay or cause to be paid to or to the order of the registered holders of the Preferred Shares to be redeemed the redemption price thereof on presentation and surrender at the registered office of the Corporation, or any other place or places designated in such notice, of the certificates representing the Preferred Shares called for redemption. If a part only of the shares represented by any certificate be redeemed a new certificate for the balance shall be issued at the expense of the Corporation. Subject to the provisions of clause 4.3 below, on and after the date specified for redemption in any such notice, the Preferred Shares called for redemption shall cease to be entitled to dividends and the holders thereof shall not be entitled to exercise any of the rights of shareholders in respect thereof unless payment of the redemption price shall not be made upon presentation of certificates in accordance with the foregoing provisions, in which case the rights of the shareholders shall remain unaffected.

4.3 The Corporation shall have the right, at any time after the mailing of notice of its intention to redeem any Preferred Shares as aforesaid to deposit the redemption price for the shares so called for redemption or of such of the said shares represented by certificates as have not at the date of such deposit been surrendered by the holders thereof in connection with such redemption to a special account in a specified chartered bank or a specified trust company in Canada, named in such notice of redemption, to be paid without interest to or to the order of the respective holders of such Preferred Shares called for redemption upon presentation and surrender to such bank or trust company of the certificates representing the same. Upon such deposit being made or upon the date specified for redemption in such notice, whichever is the later, the Preferred Shares in respect whereof such deposit shall have been made shall be deemed to be redeemed and the rights of the holders thereof after such deposit or such redemption date, as the case may be, shall be limited to receiving without interest their proportionate part of the total redemption price so deposited against presentation and surrender of the said certificates held by them respectively. Any interest allowed on any such deposit shall belong to the Corporation. Redemption moneys that are represented by a cheque which has not been presented to the Corporation’s bankers for payment or that otherwise remain unclaimed (including moneys held on deposit to a special account as provided for above) for a period of six years from the date specified for redemption shall be forfeited to the Corporation.

4.4 In the event that part only of the Preferred Shares is at any time to be redeemed, the shares so to be redeemed shall be selected *pro rata* (disregarding fractions) from among the holders of record thereof as at the date of the notice of redemption.

5. Redemption at the Option of the Holders of the Preferred Shares

5.1 Subject to the provisions of subsection 36(2) of the Act, as now enacted or as the same may from time to time be amended, re-enacted or replaced (and in the case of such amendment, re-enactment or replacement, any references herein shall be read as referring to such amended, re-enacted or replaced provisions), every registered holder of Preferred Shares may, at his or her option and in the manner hereinafter provided, require the Corporation to redeem at any time all or part of the Preferred Shares held by such holder upon payment for each share to be redeemed of a sum equivalent to the redemption price thereof.

5.2 In the case of redemption of Preferred Shares under the provisions of clause 5.1 hereof, the holder thereof shall surrender the certificate or certificates representing such Preferred Shares at the registered office of the Corporation accompanied by a notice in writing (hereinafter called a "redemption notice") signed by such holder requiring the Corporation to redeem all or a specified number of the Preferred Shares represented thereby. The Corporation shall pay or cause to be paid to or to the order of the registered holder of the Preferred Shares to be redeemed the redemption price thereof on the day the redemption notice is presented to the Corporation. If a part only of the shares represented by any certificate be redeemed a new certificate for the balance shall be issued at the expense of the Corporation.

6. Voting Rights

6.1 The holders of the Preferred Shares shall not be entitled as such (except as otherwise provided by the Act) to receive notice of or attend any meeting of the shareholders of the Corporation and shall not be entitled to vote at any such meeting.

7. Redemption Amount

7.1 Subject to clause 8.1, for the purposes of the foregoing clauses, the redemption amount of each Preferred Share shall be the quotient obtained when the fair market value of the common shares of Nortel Networks Corporation in exchange for which the Preferred Shares are issued (the "Exchanged Shares") is divided by 7,000,000. The fair market value of the Exchanged Shares shall be determined by resolution of the directors of the Corporation made within 90 days of the date on which these articles become effective.

8. Adjustment of Redemption Amount

8.1 In the event that the Canada Customs and Revenue Agency or any other taxing authority (collectively the "CCRA") disputes the fair market value of the Exchanged Shares, the directors of the Corporation shall, by resolution, adjust the fair market value of the Exchanged Shares within the 90 day period commencing after the final determination of the fair market value of the Exchanged Shares by (i) agreement between the Corporation and the holder of the Preferred Shares or, if there is no such holder at that time, then the holder at the time of issue of the Preferred Shares, (ii) agreement between the Corporation and the CCRA or (iii) judicial determination beyond any further right to appeal, and the redemption amount of the Preferred Shares shall be adjusted accordingly pursuant to clause 7.1. Any such adjustment to the fair market value of the Exchanged Shares by the directors of the Corporation pursuant to this clause 8.1 shall apply retroactively to the date of issuance of the Preferred Shares and shall increase or decrease accordingly, as the case may be, the redemption amount of a Preferred Share for all purposes (including all dividends thereto or thereafter paid on the Preferred Shares) and the Corporation and the holders or former holders of the Preferred Shares shall make appropriate adjustments with respect to any payments relating to the Preferred Shares which have taken place and which have been affected by the said adjustments to the fair market value of the Exchanged Shares and to the redemption amount of a Preferred Share.

9. Priority

9.1 The common shares shall rank junior to the Preferred Shares and shall be subject in all respects to the rights, privileges, restrictions and conditions attaching to the Preferred Shares.

ANNEX G

Fairness Opinion of Financial Advisor to BCE

MORGAN STANLEY

MORGAN STANLEY CANADA LIMITED
181 BAY STREET
SUITE 3700
TORONTO, ONTARIO M5J 2T3

March 13, 2000

Board of Directors
BCE Inc.
1000 rue de la Gauchetiere
Bureau 3700
Montreal, PQ H3B 4Y7
Canada

Dear Sirs:

We understand that BCE Inc. ("BCE" or the "Company") and Nortel Networks Corporation ("Nortel") have entered into a definitive agreement dated January 26, 2000, as amended and restated March 13, 2000 (the "Arrangement Agreement") to distribute approximately 510 million common shares of Nortel currently owned, directly or indirectly, by BCE (the "Nortel Shareholding") to BCE common shareholders by way of a statutory plan of arrangement under section 192 of the Canada Business Corporations Act ("CBCA") (the "Arrangement"). Under the Arrangement, each common shareholder of the Company will receive, for each BCE common share owned, approximately 0.78 of a common share (subject to adjustment based on the number of BCE common shares outstanding on the effective date of the Arrangement) of a new Canadian corporation ("New Nortel") which will own all of the Nortel Shareholding. BCE will retain approximately 2% of the New Nortel shares (the "Retained Shares"). As part of the Arrangement, each BCE shareholder will own the same number of BCE common shares as was owned prior to the Arrangement. Furthermore, as part of the Arrangement, all Nortel shareholders will exchange their common shares of Nortel for common shares of New Nortel on a one-for-one basis. We understand that the Arrangement is subject to approval by holders of the common shares of BCE and Nortel, respectively, on a basis to be ordered by the Superior Court of Justice of Ontario (the "Court"). We also understand that the Arrangement is subject to the approval by the Court under the CBCA and other conditions set forth in more detail in the Arrangement Agreement, including the receipt of advance income tax rulings (the "Advance Income Tax Rulings") by the Canada Customs and Revenue Agency (the "Federal Advance Income Tax Ruling") and by the Ministère du Revenu du Québec (the "Quebec Advance Income Tax Ruling"). We understand that holders of BCE common shares will be granted the right to dissent in respect of the Arrangement. The terms and conditions of the Arrangement are more fully set forth in the Arrangement Agreement.

You have asked for our opinion as to whether the New Nortel common shares to be received by holders (the "Common Shareholders") of BCE common shares (the "Common Shares") together with Common Shares retained by Common Shareholders (collectively, the "Consideration") is fair from a financial point of view to Common Shareholders.

For purposes of the opinion set forth herein, we have:

- (i) reviewed certain publicly available financial statements and other information of the Company and Nortel, respectively;
- (ii) reviewed certain internal financial statements, including financial forecasts of the Company and other financial and operating data concerning the Company prepared by management of the Company;

- (iii) discussed the past and current operations and financial condition and the prospects, including information relating to certain strategic, financial and operational benefits anticipated from the Arrangement, of the Company and Nortel with senior executives of the Company and Nortel, respectively;
- (iv) participated in discussions among representatives of the Company and its legal advisors and tax advisors;
- (v) reviewed the Federal Advance Income Tax Ruling dated March 3rd, 2000;
- (vi) reviewed the reported prices and trading activity for the Common Shares of BCE and the common shares of Nortel, respectively;
- (vii) reviewed and discussed with management of the Company the proposed dividend policy of the Company, including a reduction in the current dividend on the Common Shares;
- (viii) compared the financial performance of the Company and the prices and trading activity of the Common Shares of BCE with that of certain other comparable publicly-traded companies and their securities;
- (ix) reviewed the draft Arrangement Agreement;
- (x) reviewed such other corporate, industry and financial market information as we have deemed appropriate; and
- (xi) performed such other analyses as we have deemed appropriate.

We have assumed and relied upon without independent verification the accuracy and completeness of the information reviewed by us for the purposes of this opinion. With respect to the financial forecasts of the Company and discussions relating to the strategic, financial and operational benefits anticipated from the Arrangement, we have assumed that they have been prepared by the Company and/or Nortel as the case may be, on bases reflecting the best currently available estimates and judgments of the future competitive, operating and regulatory environments and related financial performance of the Company and Nortel. We have not made any independent valuation or appraisal of the shares, assets or liabilities of the Company, nor have we been furnished with any such appraisals. This opinion should not be construed as such a valuation or appraisal. In addition, we have assumed that the Arrangement will be effected in accordance with the terms of the draft Arrangement Agreement, that all conditions precedent thereto will be satisfied and that all consents, permissions, exemptions or orders of relevant authorities and third parties will be obtained without adverse condition or qualification and that the Quebec Advance Income Tax Ruling will not be different from such ruling as requested. For purposes of this opinion, we have relied upon discussions with senior management regarding the future dividend policy of the Company. Our opinion is necessarily based on economic, market and other conditions as in effect on, and the information made available to us as of, the date hereof.

We have acted as financial advisor to the Board of Directors of the Company in connection with this transaction and will receive a fee for our services. In the past, we have provided financial advisory and financing services for the Company and have received fees for the rendering of these services.

It is understood that this letter is for the information of the Board of Directors of the Company only and may not be used or relied upon for any other purpose or by any other person without our prior written consent. In addition, this opinion does not in any manner address the prices at which either BCE or Nortel common shares will trade following the announcement of the Arrangement. Furthermore, we express no advice or opinion as to whether or not Common Shareholders should approve the Arrangement at their special shareholder meeting.

Based on and subject to the foregoing, we are of the opinion on the date hereof that the Consideration to be received by Common Shareholders pursuant to the Arrangement is fair from a financial point of view to Common Shareholders.

Very truly yours,

by: (signed) MORGAN STANLEY CANADA LIMITED

MORGAN STANLEY CANADA LIMITED

ANNEX H

Fairness Opinion of Financial Advisor to Nortel Networks



**RBC
DOMINION
SECURITIES**

RBC Dominion Securities Inc.
P.O. Box 50
Royal Bank Plaza
Toronto, Ontario M5J 2W7
Telephone (416) 842-2000

March 13, 2000

The Special Committee of the Board of Directors and the Board of Directors
Nortel Networks Corporation
8200 Dixie Road
Suite 100
Brampton, Ontario
L6T 5P6

To the Special Committee of the Board of Directors and the Board of Directors:

RBC Dominion Securities Inc. ("RBC DS") understands that BCE Inc. ("BCE") intends to effect a reorganization of BCE involving the distribution of an approximate 36% interest in Nortel Networks Corporation (the "Company") to BCE common shareholders by way of a plan of arrangement (the "Arrangement"), as provided in the amended and restated arrangement agreement dated as of January 26, 2000 among BCE, 3056074 Canada Inc., 3263207 Canada Inc., New Nortel Inc. and the Company (the "Arrangement Agreement"). The terms of the Arrangement are more fully described in the Notice of Application and Joint Arrangement Circular (the "Arrangement Circular") to be mailed to the common shareholders of each of the Company and BCE in connection with the Arrangement.

RBC DS also understands that a committee (the "Special Committee") of the board of directors (the "Board") of the Company, comprised of directors who are independent of BCE has been constituted to consider the Arrangement and make recommendations thereon to the Board. The Company has retained RBC DS to provide advice and assistance to the Company, the Special Committee and the Board in evaluating the Arrangement, including the preparation and delivery to the Special Committee and the Board of RBC DS' opinion as to the fairness of the Arrangement from a financial point of view to the common shareholders of the Company other than BCE (the "Nortel Networks Public Shareholders") (the "Fairness Opinion"). RBC DS has not prepared a valuation of the Company or BCE or any of their respective securities or assets and the Fairness Opinion should not be construed as such.

Engagement

The Company initially contacted RBC DS regarding a potential advisory assignment in October 1999, and RBC DS was formally engaged by the Company through an agreement between the Company and RBC DS (the "Engagement Agreement") dated as of November 8, 1999. The terms of the Engagement Agreement provide that RBC DS is to be paid a fee for its services as financial advisor. In addition, RBC DS is to be reimbursed for its reasonable out-of-pocket expenses and to be indemnified by the Company in certain circumstances. The fees payable to RBC DS are not contingent upon the conclusions reached in the Fairness Opinion or on the successful completion of the Arrangement. RBC DS consents to the inclusion of the Fairness Opinion in its entirety and a summary thereof in the Arrangement Circular and to the filing thereof, as necessary, by the Company with the securities commissions or similar regulatory authorities in Canada and the United States.

RBC DS acts as a trader and dealer, both as principal and agent, in major financial markets and, as such, may have had and may in the future have positions in the securities of the Company, BCE or any of their respective associates or affiliates and, from time to time, may have executed or may execute transactions on behalf of such companies or clients for which it received or may receive compensation. As an investment dealer, RBC DS conducts research on securities and may, in the ordinary course of its business, provide research reports and investment advice to its clients on investment matters, including with respect to the Company, BCE or the Arrangement.

Member of Royal Bank Financial Group

Credentials of RBC Dominion Securities

RBC DS is one of Canada's largest investment banking firms, with operations in all facets of corporate and government finance, mergers and acquisitions, equity and fixed income sales and trading and investment research. The Fairness Opinion expressed herein represents the opinion of RBC DS and the form and content herein have been approved for release by a committee of its directors, each of whom is experienced in merger, acquisition, divestiture and fairness opinion matters.

Scope of Review

In connection with our Fairness Opinion, we have reviewed and relied upon or carried out, among other things, the following:

1. the Arrangement Agreement;
2. the most recent draft, dated March 12, 2000, of the Arrangement Circular (the "Draft Arrangement Circular");
3. the most recent draft, dated March 13, 2000, of the Notice of Annual and Special Meeting of Shareholders and Proxy Circular and Proxy Statement of the Company;
4. the advance income tax rulings and opinions, dated March 3, 2000, delivered by the Canada Customs and Revenue Agency in respect of the Arrangement;
5. audited financial statements of the Company for the three years ended December 31, 1997, 1998 and 1999;
6. the first three quarterly reports of the Company for 1998 and 1999;
7. annual reports of the Company for each of the two years ended December 31, 1997 and 1998;
8. the Notice of Annual and Special Meeting of Shareholders and Proxy Circular and Proxy Statement of the Company for each of the two years ended December 31, 1997 and 1998;
9. the Form 10-K of the Company for each of the two years ended December 31, 1998 and 1999;
10. discussions with senior management of the Company;
11. discussions with the Company's auditors and legal counsel;
12. discussions with senior management of BCE and BCE's legal counsel and financial advisors;
13. public information relating to the business, operations, financial performance and stock trading history of the Company, BCE and other selected public companies considered by us to be relevant;
14. public information with respect to other transactions of a comparable nature considered by us to be relevant;
15. public information regarding the industries in which the Company and BCE operate;
16. discussions with other financial advisors to the Company;
17. representations contained in a certificate addressed to us, dated as of the date hereof, from senior officers of the Company as to the completeness and accuracy of the information upon which the Fairness Opinion is based; and
18. such other corporate, industry and financial market information, investigations and analyses as RBC DS considered necessary or appropriate in the circumstances.

RBC DS has not, to the best of its knowledge, been denied access by the Company to any information requested by RBC DS.

Assumptions and Limitations

With the Special Committee's approval and as provided for in the Engagement Agreement, RBC DS has relied upon the completeness, accuracy and fair presentation of all of the financial and other information, data, advice, opinions or representations obtained by it from public sources, senior management of the Company and BCE, and their respective consultants and advisors (collectively, the "Information"). The Fairness Opinion is conditional upon such completeness, accuracy and fair presentation of such Information. Subject to the exercise of professional judgment and except as expressly described herein, we have not attempted to verify independently the completeness, accuracy or fair presentation of any of the Information.

Senior officers of the Company have represented to RBC DS in a certificate delivered as of the date hereof, among other things, that (i) with the exception of projections or forecasts and any independent appraisals or valuations, the information, data and other material (financial and otherwise) provided orally by, or in the presence of, an officer or employee of the Company or in writing by the Company or any of its subsidiaries (as such term is defined in the *Securities Act* (Ontario)) or their respective agents to RBC DS relating to the Company, its subsidiaries or to the Arrangement for the purpose of preparing the Fairness Opinion is, or in the case of historical information was, at the date of preparation, complete, true and correct in all material respects, and does not or did not, as the case may be, contain any untrue statement of a material fact in respect of the Company, its subsidiaries or the Arrangement or omit to state a material fact in respect of the Company, its subsidiaries or the Arrangement necessary to make such information not misleading in light of the circumstances under which the information was made or provided; that (ii) in the case of historical information, there have been no material changes or changes in material facts or new material facts since the respective dates thereof that have not been generally disclosed or disclosed to RBC DS or updated by more current information, data or other materials provided to RBC DS; and that (iii) projections or forecasts provided to RBC DS were prepared on a basis consistent in all material respects with the accounting policies applied in the audited, consolidated financial statements of the Company dated as of December 31, 1999 and reflect the assumptions disclosed therein (which assumptions management of the Company believes to be reasonable).

In preparing the Fairness Opinion, RBC DS has made several assumptions, including that all of the conditions required to implement the Arrangement, as set forth in the Arrangement Agreement, will be met, and that the disclosure provided or incorporated by reference in the Draft Arrangement Circular with respect to the Company, its subsidiaries and affiliates and the Arrangement is accurate in all material respects.

The Fairness Opinion is rendered on the basis of securities markets, economic, financial and general business conditions prevailing as at the date hereof and the condition and prospects, financial and otherwise, of the Company and its subsidiaries and affiliates, as they were reflected in the Information and as they have been represented to RBC DS in discussions with management of the Company. In its analyses and in preparing the Fairness Opinion, RBC DS made numerous assumptions with respect to industry performance, general business and economic conditions and other matters, many of which are beyond the control of RBC DS or any party involved in the Arrangement.

The Fairness Opinion has been provided for the use of the Special Committee and the Board and may not be used by any other person or relied upon by any other person other than the Special Committee and the Board without the express prior written consent of RBC DS. The Fairness Opinion is given as of the date hereof and RBC DS disclaims any undertaking or obligation to advise any person of any change in any fact or matter affecting the Fairness Opinion which may come or be brought to RBC DS' attention after the date hereof. Without limiting the foregoing, in the event that there is any material change in any fact or matter affecting the Fairness Opinion after the date hereof, RBC DS reserves the right to change, modify or withdraw the Fairness Opinion.

RBC DS believes that its analyses must be considered as a whole and that selecting portions of the analyses or the factors considered by it, without considering all factors and analyses together, could create a misleading view of the process underlying the Fairness Opinion. The preparation of a fairness opinion is a complex process and is not necessarily susceptible to partial analysis or summary description. Any attempt to do so could lead to undue emphasis on any particular factor or analysis. The Fairness Opinion is not to be construed as a recommendation to any common shareholder of the Company as to whether to vote in favour of the Arrangement.

Fairness Analysis

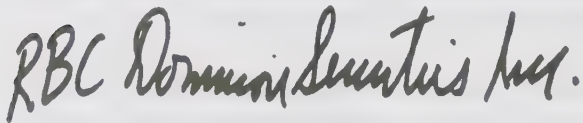
Approach to Fairness

In considering the fairness of the Arrangement from a financial point of view to the Nortel Networks Public Shareholders, RBC DS compared the potential short and long-term impact on the Nortel Networks Public Shareholders resulting from the Arrangement to the continuation of the status quo and the potential impact of alternative reorganization structures involving BCE's common shareholding in the Company.

Fairness Conclusion

Based upon and subject to the foregoing, RBC DS is of the opinion that, as of the date hereof, the Arrangement is fair from a financial point of view to the Nortel Networks Public Shareholders.

Yours very truly,

A handwritten signature in dark ink that reads "RBC Dominion Securities Inc." in a cursive, flowing script.

RBC DOMINION SECURITIES INC.

RBC DOMINION SECURITIES

ANNEX I

Pro forma Consolidated Financial Statements of BCE Inc.

COMPILATION REPORT

To the Directors of BCE Inc.

We have reviewed, as to compilation only, the accompanying *pro forma* consolidated balance sheets of BCE Inc. as at December 31, 1999 and 1998 and the *pro forma* consolidated statements of operations for the years then ended.

These *pro forma* consolidated financial statements have been prepared for inclusion in the Notice of Application and Joint Arrangement Circular involving BCE Inc. and Nortel Networks Corporation regarding the distribution by BCE Inc. of an approximate 36% interest in Nortel Networks Corporation to the BCE Inc. common shareholders. In our opinion, the *pro forma* consolidated balance sheets as at December 31, 1999 and 1998, and the *pro forma* consolidated statements of operations for the years then ended have been properly compiled to give effect to the proposed transaction and the assumptions described in the notes thereto.

Montréal, Canada
March 13, 2000

(signed) “Deloitte & Touche LLP”
Chartered Accountants

COMMENTS FOR UNITED STATES READERS ON DIFFERENCES BETWEEN CANADIAN AND UNITED STATES REPORTING STANDARDS

The above report, provided solely pursuant to Canadian requirements, is expressed in accordance with standards of reporting generally accepted in Canada. Such standards contemplate the expression of an opinion with respect to the compilation of *pro forma* consolidated financial statements. United States standards do not provide for the expression of an opinion on the compilation of *pro forma* consolidated financial statements. To report in conformity with United States standards on the reasonableness of the *pro forma* adjustments and their application to the *pro forma* consolidated financial statements requires an examination or review which would be substantially greater in scope than the review as to compilation only that we have conducted. Consequently, under United States standards we would be unable to express any opinion with respect to the compilation of the accompanying *pro forma* consolidated financial statements.

Montréal, Canada
March 13, 2000

(signed) “Deloitte & Touche LLP”
Chartered Accountants

PRO FORMA CONSOLIDATED STATEMENT OF OPERATIONS OF BCE INC.

(in \$ millions, except per share amounts)

	For the Year Ended December 31, 1999		
	Actual	Pro Forma	Pro Forma
	(audited)	(see note 2)	(unaudited)
Operating revenues.....	14,214		14,214
Operating expenses	11,522		11,522
Purchased in-process research and development expense	23		23
Restructuring and other charges	490		490
Net operating revenues	2,179		2,179
Gains on reduction of ownership in subsidiary and significantly influenced companies	4,902	(c) (591)	4,311
Equity in net earnings (losses) of significantly influenced companies	(160)	(b,f) 201	41
Other income	588		588
Earnings before the under-noted items.....	7,509	(390)	7,119
Interest expense			
Long-term debt	880		880
Other	209		209
	1,089		1,089
Earnings before income taxes and non-controlling interest.....	6,420	(390)	6,030
Income taxes	(963)		(963)
Non-controlling interest	2		2
Net earnings	5,459	(390)	5,069
Dividends on preferred shares	(93)		(93)
Net earnings applicable to common shares	5,366	(390)	4,976
 Average number of common shares outstanding (millions).....	 642.8	 —	 642.8
Net earnings per common share	8.35	(0.61)	7.74

PRO FORMA CONSOLIDATED STATEMENT OF OPERATIONS OF BCE INC.

(in \$ millions, except per share amounts)

	For the Year Ended December 31, 1998		
	Actual	Pro Forma	Pro Forma
	(audited)	(see note 2)	(unaudited)
Operating revenues	27,207	(a,f) (13,628)	13,579
Operating expenses	23,719	(a,f) (13,032)	10,687
Purchased in-process research and development expense	688	(a) (688)	0
Restructuring and other charges	<u>654</u>	(a) <u>(46)</u>	<u>608</u>
Net operating revenues	2,146	138	2,284
Gains on reduction of ownership in subsidiary and significantly influenced companies	4,146	(a,c) (3,696)	450
Equity in net losses of significantly influenced companies	(333)	(b,f) 315	(18)
Other income	<u>1,327</u>	(a) <u>(237)</u>	<u>1,090</u>
Earnings before the under-noted items	7,286	(3,480)	3,806
Interest expense			
Long-term debt	1,022	(a) (110)	912
Other	<u>259</u>	(a) <u>(106)</u>	<u>153</u>
	<u>1,281</u>	<u>(216)</u>	<u>1,065</u>
Earnings before income taxes and non-controlling interest	6,005	(3,264)	2,741
Income taxes	(1,548)	(a,f) 243	(1,305)
Non-controlling interest	<u>141</u>	(a,f) <u>(112)</u>	<u>29</u>
Net earnings	4,598	(3,133)	1,465
Dividends on preferred shares	<u>(93)</u>		<u>(93)</u>
Net earnings applicable to common shares	<u>4,505</u>	<u>(3,133)</u>	<u>1,372</u>
 Average number of common shares outstanding (millions)	 637.6	 —	 637.6
Net earnings per common share	7.07	(4.92)	2.15

PRO FORMA CONSOLIDATED BALANCE SHEET OF BCE INC.

(in \$ millions)

	At December 31, 1999		
	<u>Actual</u> (audited)	<u>Pro Forma</u> <u>Adjustments</u> (see note 2)	<u>Pro Forma</u> (unaudited)
ASSETS			
Current Assets			
Cash and cash equivalents	2,395	(h) (85)	2,310
Accounts receivable	2,598		2,598
Other current assets	514		514
Total current assets	<u>5,507</u>	<u>(85)</u>	<u>5,422</u>
Investments in significantly influenced and other companies	9,433	(d) (6,524)	2,909
Capital assets	16,935	(f) 190	17,125
Deferred charges	2,714		2,714
Goodwill and other assets	2,371		2,371
Total assets	<u>36,960</u>	<u>(6,419)</u>	<u>30,541</u>
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities	3,618		3,618
Income and other taxes payable	248		248
Debt due within one year	1,677		1,677
Total current liabilities	<u>5,543</u>		<u>5,543</u>
Long-term debt	8,780		8,780
Deferred income taxes	783	(f) 69	852
Other long-term liabilities	1,502		1,502
Total liabilities	<u>16,608</u>	<u>69</u>	<u>16,677</u>
Non-controlling interest	2,460		2,460
SHAREHOLDERS' EQUITY			
Preferred shares	1,700		1,700
Common shareholders' equity			
Common shares	6,789		6,789
Contributed surplus	997		997
Retained earnings	8,691	(d,f,g,h) (6,686)	2,005
Currency translation adjustment	(285)	(e) 198	(87)
Total common shareholders' equity	<u>16,192</u>	<u>(6,488)</u>	<u>9,704</u>
Total liabilities and shareholders' equity	<u>36,960</u>	<u>(6,419)</u>	<u>30,541</u>

PRO FORMA CONSOLIDATED BALANCE SHEET OF BCE INC.

(in \$ millions)

	At December 31, 1998		
	<u>Actual</u> (audited)	<u>Pro Forma</u> <u>Adjustments</u> (see note 2)	<u>Pro Forma</u> (unaudited)
ASSETS			
Current Assets			
Cash and cash equivalents	370	(h) (85)	285
Accounts receivable	1,922		1,922
Other current assets	<u>488</u>		<u>488</u>
Total current assets	<u>2,780</u>	<u>(85)</u>	<u>2,695</u>
Investments in significantly influenced and other companies	9,536	(d) (6,703)	2,833
Capital assets	16,745	(f) 190	16,935
Deferred charges	2,257		2,257
Goodwill and other assets	<u>852</u>		<u>852</u>
Total assets	<u><u>32,170</u></u>	<u><u>(6,598)</u></u>	<u><u>25,572</u></u>
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities	3,255		3,255
Income and other taxes payable	472		472
Debt due within one year	<u>2,075</u>		<u>2,075</u>
Total current liabilities	<u>5,802</u>		<u>5,802</u>
Long-term debt	9,260		9,260
Deferred income taxes	639	(f) 69	708
Other long-term liabilities	<u>1,466</u>		<u>1,466</u>
Total liabilities	<u>17,167</u>	<u>69</u>	<u>17,236</u>
Non-controlling interest	1,358		1,358
SHAREHOLDERS' EQUITY			
Preferred shares	1,700		1,700
Common shareholders' equity			
Common shares	6,559		6,559
Contributed surplus	997		997
Retained earnings (deficit)	4,207	(d,f,g,h) (6,399)	(2,192)
Currency translation adjustment	<u>182</u>	(e) <u>(268)</u>	<u>(86)</u>
Total common shareholders' equity	<u>11,945</u>	<u>(6,667)</u>	<u>5,278</u>
Total liabilities and shareholders' equity	<u><u>32,170</u></u>	<u><u>(6,598)</u></u>	<u><u>25,572</u></u>

BCE INC.

NOTES TO PRO FORMA BALANCE SHEETS AND STATEMENTS OF OPERATIONS

Unaudited — See Compilation Report

1. BASIS OF PRESENTATION

The *pro forma* consolidated balance sheets and statements of operations (“*pro forma* statements”) have been prepared from the consolidated financial statements of BCE Inc. (“BCE”) at and for the years ended December 31, 1998 and 1999 and reflect, on a *pro forma* basis, the distribution of an approximate 36% interest in Nortel Networks Corporation (“Nortel Networks”) to BCE Common Shareholders. The *pro forma* statements should be read in conjunction with the consolidated financial statements and other financial information of BCE for the years ended December 31, 1998 and 1999.

The *pro forma* statements have been prepared in accordance with Canadian generally accepted accounting principles.

The *pro forma* statements are not necessarily indicative of the financial position or results of operations that would have resulted had the distribution of Nortel Networks taken place at the dates indicated below or that may be achieved in the future.

2. PRO FORMA ASSUMPTIONS AND ADJUSTMENTS

The *pro forma* statements have been presented assuming that the distribution of an approximate 36% interest in Nortel Networks had been completed as at January 1, 1998 and 1999 for the *pro forma* consolidated statements of operations for the years ended December 31, 1998 and 1999, respectively, and at December 31, 1998 and 1999 for the *pro forma* consolidated balance sheets as at the same dates. Up to August 31, 1998, Nortel Networks was consolidated in the financial statements of BCE. Subsequently, the equity accounting method was used to account for the investment in Nortel Networks. The *pro forma* statements give effect to the following items:

- (a) Elimination of Nortel Networks for the period January 1, 1998 to August 31, 1998 from the statement of operations;
- (b) Elimination of equity losses from Nortel Networks recognized since August 31, 1998;
- (c) Elimination of gains on reduction of ownership in Nortel Networks;
- (d) Elimination of the pro-rata share of the equity carrying value of the investment in Nortel Networks from investments in significantly influenced and other companies. The retention of the approximate 2% interest in Nortel Networks is recorded as an investment at cost. Cost has been determined based on the pro-rata share of the equity carrying value of the investment in Nortel Networks;
- (e) Elimination of the currency translation adjustment related to Nortel Networks;
- (f) Reversal of intercompany transactions and related tax impact between Nortel Networks and BCE subsidiary and significantly influenced companies, which were previously eliminated;
- (g) The reduction of BCE’s common dividend per share of \$1.36 to \$1.20 and the elimination of dividends received from Nortel Networks; and
- (h) The payment of approximately \$85 million of transaction related costs.

ANNEX J

Section 190 of the *Canada Business Corporations Act*, R.S.C. 1985, c. C-44, as amended

Part XV — Fundamental Changes

190. (1) *Right to dissent* — Subject to sections 191 and 241, a holder of shares of any class of a corporation may dissent if the corporation is subject to an order under paragraph 192(4)(d) that affects the holder or if the corporation resolves to
- (a) amend its articles under section 173 or 174 to add, change or remove any provisions restricting or constraining the issue, transfer or ownership of shares of that class;
 - (b) amend its articles under section 173 to add, change or remove any restriction on the business or businesses that the corporation may carry on;
 - (c) amalgamate otherwise than under section 184;
 - (d) be continued under section 188; or
 - (e) sell, lease or exchange all or substantially all its property under subsection 189(3).
- (2) *Further right* — A holder of shares of any class or series of shares entitled to vote under section 176 may dissent if the corporation resolves to amend its articles in a manner described in that section.
- (3) *Payment for shares* — In addition to any other right he may have, but subject to subsection (26), a shareholder who complies with this section is entitled, when the action approved by the resolution from which he dissents or an order made under subsection 192(4) becomes effective, to be paid by the corporation the fair value of the shares held by him in respect of which he dissents, determined as of the close of business on the day before the resolution was adopted or the order was made.
- (4) *No partial dissent* — A dissenting shareholder may only claim under this section with respect to all the shares of a class held by him on behalf of any one beneficial owner and registered in the name of the dissenting shareholder.
- (5) *Objection* — A dissenting shareholder shall send to the corporation, at or before any meeting of shareholders at which a resolution referred to in subsection (1) or (2) is to be voted on, a written objection to the resolution, unless the corporation did not give notice to the shareholder of the purpose of the meeting and of his right to dissent.
- (6) *Notice of resolution* — The corporation shall, within ten days after the shareholders adopt the resolution, send to each shareholder who has filed the objection referred to in subsection (5) notice that the resolution has been adopted, but such notice is not required to be sent to any shareholder who voted for the resolution or who has withdrawn his objection.
- (7) *Demand for payment* — A dissenting shareholder shall, within twenty days after he receives a notice under subsection (6) or, if he does not receive such notice, within twenty days after he learns that the resolution has been adopted, send to the corporation a written notice containing
- (a) his name and address;
 - (b) the number and class of shares in respect of which he dissents; and
 - (c) a demand for payment of the fair value of such shares.
- (8) *Share certificate* — A dissenting shareholder shall, within thirty days after sending a notice under subsection (7), send the certificates representing the shares in respect of which he dissents to the corporation or its transfer agent.
- (9) *Forfeiture* — A dissenting shareholder who fails to comply with subsection (8) has no right to make a claim under this section.
- (10) *Endorsing certificate* — A corporation or its transfer agent shall endorse on any share certificate received under subsection (8) a notice that the holder is a dissenting shareholder under this section and shall forthwith return the share certificates to the dissenting shareholder.

- (11) *Suspension of rights* — On sending a notice under subsection (7), a dissenting shareholder ceases to have any rights as a shareholder other than the right to be paid the fair value of his shares as determined under this section except where
- (a) the dissenting shareholder withdraws his notice before the corporation makes an offer under subsection (12),
 - (b) the corporation fails to make an offer in accordance with subsection (12) and the dissenting shareholder withdraws his notice, or
 - (c) the directors revoke a resolution to amend the articles under subsection 173(2) or 174(5), terminate an amalgamation agreement under subsection 183(6) or an application for continuance under subsection 188(6), or abandon a sale, lease or exchange under subsection 189(9),
- in which case his rights as a shareholder are reinstated as of the date he sent the notice referred to in subsection (7).
- (12) *Offer to pay* — A corporation shall, not later than seven days after the later of the day on which the action approved by the resolution is effective or the day the corporation received the notice referred to in subsection (7), send to each dissenting shareholder who has sent such notice
- (a) a written offer to pay for his shares in an amount considered by the directors of the corporation to be the fair value thereof, accompanied by a statement showing how the fair value was determined; or
 - (b) if subsection (26) applies, a notification that it is unable lawfully to pay dissenting shareholders for their shares.
- (13) *Same terms* — Every offer made under subsection (12) for shares of the same class or series shall be on the same terms.
- (14) *Payment* — Subject to subsection (26), a corporation shall pay for the shares of a dissenting shareholder within ten days after an offer made under subsection (12) has been accepted, but any such offer lapses if the corporation does not receive an acceptance thereof within thirty days after the offer has been made.
- (15) *Corporation may apply to court* — Where a corporation fails to make an offer under subsection (12), or if a dissenting shareholder fails to accept an offer, the corporation may, within fifty days after the action approved by the resolution is effective or within such further period as a court may allow, apply to a court to fix a fair value for the shares of any dissenting shareholder.
- (16) *Shareholder application to court* — If a corporation fails to apply to a court under subsection (15), a dissenting shareholder may apply to a court for the same purpose within a further period of twenty days or within such further period as a court may allow.
- (17) *Venue* — An application under subsection (15) or (16) shall be made to a court having jurisdiction in the place where the corporation has its registered office or in the province where the dissenting shareholder resides if the corporation carries on business in that province.
- (18) *No security for costs* — A dissenting shareholder is not required to give security for costs in an application made under subsection (15) or (16).
- (19) *Parties* — On an application to a court under subsection (15) or (16),
- (a) all dissenting shareholders whose shares have not been purchased by the corporation shall be joined as parties and are bound by the decision of the court; and
 - (b) the corporation shall notify each affected dissenting shareholder of the date, place and consequences of the application and of his right to appear and be heard in person or by counsel.
- (20) *Powers of court* — On an application to a court under subsection (15) or (16), the court may determine whether any other person is a dissenting shareholder who should be joined as a party, and the court shall then fix a fair value for the shares of all dissenting shareholders.
- (21) *Appraisers* — A court may in its discretion appoint one or more appraisers to assist the court to fix a fair value for the shares of the dissenting shareholders.
- (22) *Final order* — The final order of a court shall be rendered against the corporation in favour of each dissenting shareholder and for the amount of his shares as fixed by the court.

- (23) *Interest* — A court may in its discretion allow a reasonable rate of interest on the amount payable to each dissenting shareholder from the date the action approved by the resolution is effective until the date of payment.
- (24) *Notice that subsection (26) applies* — If subsection (26) applies, the corporation shall, within ten days after the pronouncement of an order under subsection (22), notify each dissenting shareholder that it is unable lawfully to pay dissenting shareholders for their shares.
- (25) *Effect where subsection (26) applies* — If subsection (26) applies, a dissenting shareholder, by written notice delivered to the corporation within thirty days after receiving a notice under subsection (24) may
- (a) withdraw his notice of dissent, in which case the corporation is deemed to consent to the withdrawal and the shareholder is reinstated to his full rights as a shareholder; or
 - (b) retain a status as claimant against the corporation, to be paid as soon as the corporation is lawfully able to do so or, in a liquidation, to be ranked subordinate to the rights of creditors of the corporation but in priority to its shareholders.
- (26) *Limitation* — A corporation shall not make a payment to a dissenting shareholder under this section if there are reasonable grounds for believing that
- (a) the corporation is or would after the payment be unable to pay its liabilities as they become due; or
 - (b) the realizable value of the corporation's assets would thereby be less than the aggregate of its liabilities.

